



December 8, 2000

210 N. Park Ave.
Winter Park, FL
32789

P.O. Drawer 200
Winter Park, FL
32790-0200

Tel: 407-740-8575
Fax: 407-740-0613
tmi@tminc.com

Mr. David Waddell, Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37219-0412
(615) 741-3939

**RE: The Other Phone Company, Inc., d/b/a Access One Communications
Application for Certificate to Provide Facilities Based Competing Local
Telecommunications Services
Docket Number 99-00694**

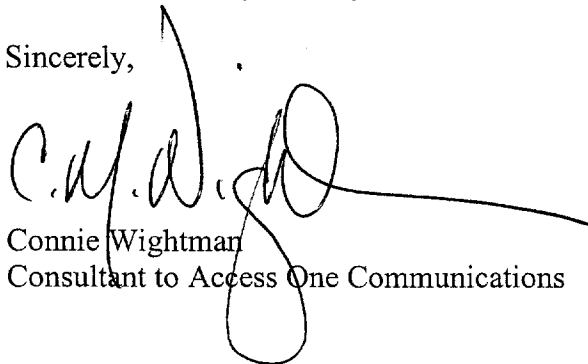
Dear Mr. Waddell:

Enclosed for filing are the original and thirteen (13) copies of the data request responses of The Other Phone Company, Inc. d/b/a Access One Communications submitted in the above referenced docket number.

Please acknowledge receipt of this filing by returning, date-stamped, the extra copy of this cover letter in the self-addressed, stamped envelope enclosed for this purpose.

If any questions arise regarding this filing, please do not hesitate to call me at (407) 740-8575. Thank you for your assistance.

Sincerely,



Connie Wightman
Consultant to Access One Communications

cc: Darrell Whitis, TRA (*via overnight delivery*)

Tina Tecce

File: Access One - TN- Local

TMS: TNL9901c

12/12/00

**The Other Phone Company d/b/a Access One
DATA REQUEST RESPONSE 2**

Administrative Requirements

Please provide the following information relating to the change in ownership of the parent of The Other Phone Company:

1. Please provide information regarding the corporate structure of the Other Phone Company and its parent companies and affiliates.

Response: See Attachment 1

2. Please provide updated executive management personnel information.

Response: See Attachment 2

Financial Requirements

Please provide the following financial information of the applicant:

1. Estimated cost of the proposed network (unbundled network elements - UNE's) and sources of funding for the network and projected losses.

Response: The company estimates a gross margin of 35% on the services resulting from the UNEs ordered to provision the service. Since each service will be priced to recover its incremental costs, there are no anticipated losses specific to the provisioning of service in Tennessee. Generally, the Applicant, through its parent company, Talk.com, has access to funding in the form of lines of credit and other financing as indicated in the SEC statements of Talk.com. (See Attachment 4).

2. Current audited (if available) Year 2000 financial statements of the applicant and parent (Balance Sheet, Income Statement, and Statement of Cash Flows) (Notes: This is a request for updated information since the original application was several months ago.

Response: No financial statements have been prepared for Year 2000 since the year is not yet concluded. The most recent, and indeed the last, audited financial statement of previous parent company of the Applicant is provided in Attachment 3. This financial statement covers the periods ending October 31, 1999 and 1998. To supplement this information, a recent SEC quarterly report of the parent company, Talk.com, is provided in Attachment 4. The Applicant will rely on the financial resources of its parent company to sustain its growth in Tennessee and other states.

The Other Phone Company d/b/a Access One
DATA REQUEST RESPONSE 2, continued

Financial Issues, continued

3. Reminder: TCA §65-4-125 amendment states that all telecommunications service providers subject to the control and jurisdiction of the authority, except those owners or operators of public telephone service who pay annual inspection and supervision fees pursuant to Tennessee Code Annotated, §65-4-301(b), or any telecommunications service provider that owns and operates equipment facilities in Tennessee with a value of more than five million (\$5,000,000), shall file with the authority a corporate surety bond or irrevocable letter of credit in the amount of twenty thousand dollars (\$20,000) to secure the payment of any monetary sanction imposed in any enforcement proceeding, brought under this title or the Consumer Telemarketing Protection Act of 1990, by or on behalf of the Authority. Please submit a corporate surety bond or irrevocable letter of credit to the TRA on the provided sample forms, if applicable (2nd request).

Response: The surety bond was submitted on October 4, 2000.

Technical Requirements

State if there are any special CPE (customer premises equipment) requirements that would not be compatible with the incumbent carrier.

Response: No. In fact, since all elements of the network are provided by the incumbent LEC, all equipment must be compatible with the LEC's network.

Numbering Issues

Please provide answers to the following questions concerning numbering within your proposed service area.

1. What is your company's expected demand for NXX's per NPA within a year of approval of your application?

Since all service will be provisioned as UNE-P (with the ILEC providing both the access loops and the switching), the company will have no independent demand for NXX's. The ILEC provides both all elements of the service, including assigning a telephone number from their pool of assignable numbers. Since most customers will be existing ILEC customers who change their service over as is, no additional NXXs are anticipated.

The Other Phone Company d/b/a Access One
DATA REQUEST RESPONSE 2, continued

Numbering Issues, continued

2. How many NXXs do you estimate that you will request from NANPA when you establish your service footprint?

Response: None. See response to item number 1 above.

3. When and in what NPA do you expect to establish your service footprint?

Response: The Applicant currently offers services in Tennessee resold basis and is prepared to convert its current customer base to UNE-P upon grant of this authority. It's service footprint is identical to Bell since it relies on Bell for all network elements and will continue to do so in a UNE-P environment.

4. Will the company sequentially assign telephone numbers within NXXs?

Response: The company will not assign telephone numbers. In the UNE-P environment, the ILEC assigns the telephone numbers.

5. What measures does the company intend to take to conserve Tennessee numbering resources?

Response: The company will not reserve numbers. Instead, its numbers are assigned by the ILEC on an as-needed basis. Disconnected service numbers are returned to the ILEC pool of assignable numbers as soon as the referral period has expired.

6. When ordering new NXXs for growth, what percentage fill of an existing NXX does the company use to determine when a request for new NXX will be initiated.

Response: Not applicable. See responses above.

The Other Phone Company d/b/a Access One
DATA REQUEST RESPONSE 2, continued

Tennessee Specific Operational Issues

Please provide answers to the following questions concerning Tennessee Specific Operational Issues.

1. How does the company intend to comply with TCA §65-21-114? In its description, please explain technically how the company will not bill for countywide calls within Tennessee.

Response: The Company will utilize the BellSouth maintained data base to eliminate intracountry calls from the call detail prior to rating.

2. Is the company aware of the Tennessee County Wide Calling database maintained by BellSouth and the procedures to enter your telephone numbers on the database?

Response: Yes. Numbers will be entered into the database by BellSouth since BellSouth assigns the numbers.

3. How does your company intend to provide metro area toll-free calling ("MAC") around Memphis, Nashville, Knoxville and Chattanooga?

Response: The Applicant does not own any network or local switching capacity, but rather leases the capabilities of BellSouth for these functions. BellSouth provides the Applicant with call detail from which the Applicant rates and bills calls. When a customer places a call in the toll-free calling area, BellSouth recognizes it as toll free and handles it like a local call. Since it is not handed off to the Applicant as a toll call it is billed according to the arrangement with BellSouth.

4. Is the company aware of the MAC database maintained by BellSouth and the procedures to enter your telephone numbers on the database?

Response: Yes, however, the Applicant will rely on BellSouth to enter the numbers in the database since it provides and assigns all numbers to the Applicant's customers.

5. Please provide the name and telephone number of an employee of your company that will be responsible to work with the TRA on resolving customer complaints.

Response: Christine Meier at (215) 862-5945

**The Other Phone Company d/b/a Access One
DATA REQUEST RESPONSE 2, continued**

Tennessee Specific Operational Issues, continued

6. Does the company intend to telemarket its services in Tennessee? If yes, is the company aware of the telemarketing statutes and regulations found in TCA §65-4-401 *et seq.* And Chapter 1220-4-11?

Response: Yes, the Applicant will avail itself of the statutory requirements and regulations.

Miscellaneous

Please provide the following miscellaneous information:

1. Please state if applicant plans to offer services in areas service by any incumbent local exchange carriers with fewer than 100,000 lines.

Response: No, the Applicant only intends to offer service in BellSouth territories at this time.

2. Please provide updated information regarding the states the applicant is certificated and certificates are pending.

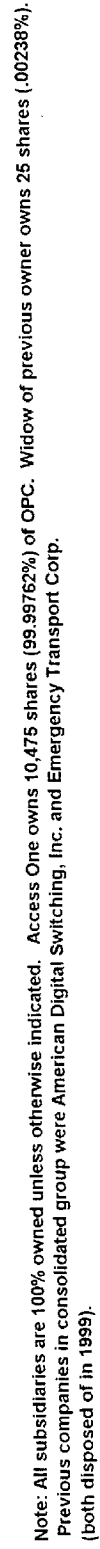
Response: The Applicant is certificated in AL, FL, GA, KY, LA, MS, NY, NC, SC, and TN.

3. State whether a PIC change charge waiver period is proposed and for how long (intraLATA Toll Dialing Parity Plan).

Response: All customers can convert to the Applicant "as is", including their PIC arrangements. No customer of the Applicant has been denied intraLATA and therefore a waiver period is not necessary. When new customers sign up with the Applicant, they may select an interLATA and an intraLATA carrier with no PIC change charge. PIC change charges only apply to subsequent changes in primary interexchange carrier.

Attachment 1

Organizational Information



Attachment 2

Managerial Information

Executive Management Team

Gabriel Battista, Chairman and Chief Executive Officer

Mr. Battista joined TALK.com as its Chairman and Chief Executive Officer in January of 1999. Prior to joining the Company, Mr. Battista served as Chief Executive Officer of Network Solutions Inc., an Internet domain name registration company. Prior to joining Network Solutions, Mr. Battista served both as CEO and as President and Chief Operating Officer of Cable & Wireless, Inc., the nation's largest telecommunications provider. His career also included management positions at US Sprint, GTE Telenet and General Electric Information Services. Mr. Battista serves as a director of Axent Technologies, Inc., Capitol College, Systems & Computer Technology Corporation (SCT) and Online Technologies Group, Inc. (OTG), The Greater Washington Board of Trade and VIA Networks. He is a registered Professional Engineer in the State of Pennsylvania. He holds a BSEE from Villanova University, an MSEE from Drexel University and an MBA from Temple University.

Kenneth G. Baritz, President

Prior to joining TALK.com, Mr. Baritz was Chairman and Chief Executive Officer of Access One since 1997. Prior to that, Mr. Baritz was Chairman and Chief Executive Officer of AMNEX, Inc. and also was a Director from October 1992 through March 1997. In such capacity, Mr. Baritz was responsible for an aggressive acquisition strategy employed by AMNEX. Prior to joining AMNEX, Mr. Baritz served as a Vice President of Bear Stearns & Co., Inc., an investment-banking firm. Mr. Baritz currently serves on the board of a number of privately held companies.

Kevin Griffo, Executive Vice President- Local Services

Mr. Griffo joined TALK.com in March of 2000. He was formerly President and Chief Operating Officer of Access One before joining TALK. Previously, Mr. Griffo was employed by AMNEX from January 1995 to December 1997, holding various positions, including Chief Operating Officer and President of AMNEX's Telecommunications Division. Prior to joining AMNEX, he was southeastern regional Vice President for LDDS WorldCom from August 1992 to December 1994. In such capacity, Mr. Griffo had significant operating responsibility, which included responsibility for operating sales offices and hiring and supervising sales personnel.

Janet Kirschner, Controller

Mrs. Kirschner joined TALK.com in November 1999. Prior to joining the company, Mrs. Kirschner spent 16 years in corporate accounting with Bell Atlantic as a director in senior level positions, including corporate tax, internal auditing, financial systems implementation and business controls. Before her tenure with Bell Atlantic, she served six years as a manager and senior accountant for PriceWaterhouseCoopers, formerly Coopers & Lybrand. Mrs. Kirschner is a Certified Public Accountant who graduated Summa Cum Laude with a bachelor's degree in accounting from Temple University.

Aloysius T. Lawn, IV, Executive Vice President -General Counsel and Secretary

Mr. Lawn joined the company in January 1996 and currently serves as General Counsel and Secretary. Prior to joining Talk.com, from 1985 through 1995, Mr. Lawn was an attorney in private practice with extensive experience in private and public financings, mergers and acquisitions, securities regulation and corporate governance. Mr. Lawn graduated from Yale University in 1981 and Temple University School of Law in 1985.

Edward B. Meyercord, III, Executive Vice President -Chief Financial Officer, Chief Operating Officer and Treasurer

Mr. Meyercord currently serves as the Chief Financial Officer and Treasurer of TALK.com. He joined TALK.com in September of 1996 as the Executive Vice President, Marketing and Corporate Development. Prior to joining the company, Mr. Meyercord served as Vice President in the Global Telecommunications Corporate Finance Group at Salomon Brothers, Inc., based in New York and prior to Salomon Brothers he worked in the corporate finance department at Paine Webber Incorporated. He received his BA from Trinity College and his MBA from New York University's Stern School of Business.

George Vinall, Executive Vice President -Business Development

Mr. Vinall joined TALK.com in January of 1999 as Executive Vice President, Business Development. Prior to joining TALK.com, he served as President of International Protocol LLC, a telecommunication consulting business, as General Manager of Cable & Wireless Internet Exchange, an international internet service provider, and as Vice President, Regulatory & Government Affairs of Cable and Wireless North America, an international common carrier. He is a frequent speaker at industry forums and has published numerous articles in industry journals.

Board of Directors

Gabriel Battista, Chairman of the Board and Chief Executive Officer

Mr. Battista joined TALK.com as its President, Chairman and Chief Executive Officer in January of 1999. Prior to joining the Company, Mr. Battista served as Chief Executive Officer of Network Solutions Inc., an Internet domain name registration company. Prior to joining Network Solutions, Mr. Battista served both as CEO and as President and Chief Operating Officer of Cable & Wireless, Inc., the nation's largest telecommunications provider. His career also included management positions at US Sprint, GTE Telenet and General Electric Information Services. Mr. Battista serves as a director of Axent Technologies, Inc., Capitol College, Systems & Computer Technology Corporation (SCT) and Online Technologies Group, Inc. (OTG), The Greater Washington Board of Trade and VIA Networks. He is a registered Professional Engineer in the State of Pennsylvania. He holds a BSEE from Villanova University, an MSEE from Drexel University and an MBA from Temple University.

Kenneth G. Baritz, President

Prior to joining TALK.com, Mr. Baritz was Chairman and Chief Executive Officer of Access One since 1997. Prior to that, Mr. Baritz was Chairman and Chief Executive Officer of AMNEX, Inc. and also was a Director from October 1992 through March 1997. In such capacity, Mr. Baritz was responsible for an aggressive acquisition strategy employed by AMNEX. Prior to joining AMNEX, Mr. Baritz served as a Vice President of Bear Stearns & Co., Inc., an investment-banking firm. Mr. Baritz currently serves on the board of a number of privately held companies.

Aloysius T. Lawn, IV, Executive Vice President -General Counsel and Secretary

Mr. Lawn joined the company in January 1996 and currently serves as General Counsel and Secretary. Prior to joining Talk.com, from 1985 through 1995, Mr. Lawn was an attorney in private practice with extensive experience in private and public financings, mergers and acquisitions, securities regulation and corporate governance. Mr. Lawn graduated from Yale University in 1981 and Temple University School of Law in 1985.

Edward B. Meyercord, III, Executive Vice President -Chief Financial Officer, Chief Operating Officer and Treasurer

Mr. Meyercord currently serves as the Chief Financial Officer and Treasurer of TALK.com. He joined TALK.com in September of 1996 as the Executive Vice President, Marketing and Corporate Development. Prior to joining the company, Mr. Meyercord served as Vice President in the Global Telecommunications Corporate Finance Group at Salomon Brothers, Inc., based in New York and prior to Salomon Brothers he worked in the corporate finance department at Paine Webber Incorporated. He received his BA from Trinity College and his MBA from New York University's Stern School of Business.

Attachment 3

Audited Financial Statements

Index to Access One Financial Statements

| Access One Communications Corp. and Subsidiaries | <u>Page</u> |
|---|--------------------|
| Report of Independent Auditors | F-2 |
| Consolidated balance sheets - October 31, 1999 and 1998 | F-3 |
| Consolidated statements of operations - Years ended October 31, 1999, 1998 and 1997 | F-4 |
| Consolidated statements of stockholders' equity (deficiency) - Years ended October 31, 1999, 1998 and 1997 | F-5 |
| Consolidated statements of cash flows - Years ended October 31, 1999, 1998 and 1997 | F-6 |
| Notes to consolidated financial statements - Years ended October 31, 1999, 1998 and 1997 | F-7 |
| Consolidated balance sheets - April 30, 2000 (unaudited) and October 31, 1999 | F-21 |
| Consolidated statements of operations - Three and six months ended April 30, 2000 and 1999 (unaudited) | F-22 |
| Consolidated statement of stockholders' equity (deficiency) - Six months ended April, 2000 (unaudited) | F-23 |
| Consolidated statements of cash flows - Six months ended April 30, 2000 and 1999 (unaudited) | F-24 |
| Notes to consolidated financial statements (unaudited) | F-25 |

Report of Independent Auditors

Board of Directors
Access One Communications Corp.
Orlando, Florida

We have audited the accompanying consolidated balance sheets of Access One Communications Corp. and subsidiaries as of October 31, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity (deficiency), and cash flows for the years ended October 31, 1999, 1998 and 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Access One Communications Corp. and subsidiaries as of October 31, 1999 and 1998, and the consolidated results of their operations and cash flows for the years ended October 31, 1999, 1998 and 1997, in conformity with generally accepted accounting principles.

NUSSBAUM YATES & WOLPOW, P.C.

Melville, New York
January 28, 2000

CONSOLIDATED BALANCE SHEETS

OCTOBER 31, 1999 AND 1998

ASSETS

| | <u>1999</u> | <u>1998</u> |
|---|---------------------|--------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 913,596 | \$ 118,042 |
| Investment securities | 675,000 | 396,175 |
| Accounts receivable, net of allowance for doubtful accounts of \$645,865 and \$333,946 in 1999 and 1998 | 1,472,429 | 1,057,271 |
| Prepaid expenses and other current assets | <u>50,690</u> | <u>49,735</u> |
| Total current assets | <u>3,111,715</u> | <u>1,621,223</u> |
| Property and equipment, net | <u>300,206</u> | <u>254,060</u> |
| Other assets: | | |
| Deferred financing costs, net of accumulated amortization of \$32,908 | 263,265 | - |
| Purchased customer accounts, net of accumulated amortization of \$626,677 | 701,021 | - |
| Goodwill, net of accumulated amortization of \$568,750 and \$293,446 in 1999 and 1998 | 1,358,428 | 1,633,732 |
| Deposits | <u>552,474</u> | <u>376,334</u> |
| | <u>2,875,188</u> | <u>2,010,066</u> |
| | <u>\$ 6,287,109</u> | <u>\$3,885,349</u> |

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)

| | | |
|--|---------------------|---------------------|
| Current liabilities: | | |
| Note payable, e.spire Communications, Inc. | \$ 850,811 | \$ - |
| Loans payable, Receivables Funding Corporation | - | 1,054,046 |
| Due to related parties | - | 185,000 |
| Current portion of long-term debt | - | 227,291 |
| Accounts payable | 3,121,390 | 2,148,609 |
| Accrued expenses and other current liabilities | <u>834,218</u> | <u>585,759</u> |
| Total current liabilities | 4,806,419 | 4,200,705 |
| Long-term debt, less current portion | <u>6,837,119</u> | <u>181,124</u> |
| | <u>11,643,538</u> | <u>4,381,829</u> |
| Stockholders' equity (deficiency): | | |
| Common stock, \$.001 par value, authorized 50,000,000 shares; issued and outstanding 12,801,000 and 12,776,000 shares in 1999 and 1998 | 12,801 | 12,776 |
| Preferred stock, \$.001 par value, authorized 7,500,000 shares; none issued | - | - |
| Additional paid-in capital | 4,090,605 | 4,534,905 |
| Accumulated other comprehensive income (loss), unrealized holding gain (loss) on investment securities | 453,720 | (124,730) |
| Accumulated deficit | <u>(9,913,555)</u> | <u>(4,919,431)</u> |
| | <u>(5,356,429)</u> | <u>(496,480)</u> |
| | <u>\$ 6,287,109</u> | <u>\$3,885,349</u> |

See accompanying notes to consolidated financial statements.

ACCESS ONE COMMUNICATIONS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED OCTOBER 31, 1999, 1998 AND 1997

| | <u>1999</u> | <u>1998</u> | <u>1997</u> |
|--|-------------------|-------------------|-------------------|
| Revenue | \$15,412,640 | \$5,811,038 | \$ 479,516 |
| Cost of service | <u>12,177,793</u> | <u>5,045,514</u> | <u>366,243</u> |
| Gross profit | <u>3,234,847</u> | <u>765,524</u> | <u>113,273</u> |
| Operating expenses: | | | |
| Selling | 998,949 | 725,574 | 70,283 |
| Administrative | <u>5,848,935</u> | <u>3,427,414</u> | <u>184,716</u> |
| Total operating expenses | <u>6,847,884</u> | <u>4,152,988</u> | <u>254,999</u> |
| Loss from operations | (3,613,037) | (3,387,464) | (141,726) |
| Other expense: | | | |
| Interest and loan fees, net of interest income of \$4,130 in 1999 | 1,166,462 | 312,869 | 16,372 |
| Loss on sale of investment securities | <u>214,625</u> | <u>1,061,000</u> | <u> </u> |
| | <u>1,381,087</u> | <u>1,373,869</u> | <u>16,372</u> |
| Net loss | (\$ 4,994,124) | (\$4,761,333) | (\$ 158,098) |
| Basic and diluted loss per common share | (\$.39) | (\$.41) | (\$.05) |
| Weighted average number of common shares outstanding | <u>12,792,575</u> | <u>11,641,592</u> | <u>3,180,000</u> |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIENCY)

YEARS ENDED OCTOBER 31, 1999, 1998 AND 1997

| | Common Stock | | Additional Paid-in Capital | | Accumulated Other Comprehensive Income (Loss) | | Accumulated Deficit | | Total |
|---|--------------|----------|----------------------------|--|---|--|---------------------|--|----------------|
| | Shares | Amount | | | | | | | |
| Balance, November 1, 1996 | 2,500,000 | \$ 2,500 | (\$ 2,500) | | \$ - | | \$ - | | \$ - |
| Capital contributed | - | - | 100 | | - | | - | | 100 |
| Stock issued to reimburse Chairman for expenses | 750,000 | 750 | 34,250 | | - | | - | | 35,000 |
| Stock issued to acquire OPC Acquisition Corp. | 4,000,000 | 4,000 | 429,251 | | - | | - | | 433,251 |
| Stock issued pursuant to private placements, net | 465,000 | 465 | 285,835 | | - | | - | | 286,300 |
| Stock issued to eLEC Communications Corp. in exchange for 425,000 shares of eLEC Communications Corp. | 3,000,000 | 3,000 | 1,497,000 | | - | | - | | 1,500,000 |
| Net loss for the year ended October 31, 1997 | - | - | - | | - | | (158,098) | | (158,098) |
| Balance, October 1, 1997 | 10,715,000 | 10,715 | 2,243,936 | | - | | (158,098) | | 2,096,553 |
| Net loss for the year ended October 31, 1998 | - | - | - | | - | | (4,761,333) | | (4,761,333) |
| Unrealized loss on investment arising during the period | - | - | - | | (124,730) | | - | | (124,730) |
| Comprehensive income (loss) | - | - | - | | - | | - | | (4,886,063) |
| Stock issued to eLEC Communications, Inc. in exchange for 750,000 shares of eLEC Communications, Inc. | 700,000 | 700 | 1,454,330 | | - | | - | | 1,455,030 |
| Stock issued to related parties in satisfaction of loans and accrued interest | 846,000 | 846 | 422,154 | | - | | - | | 423,000 |
| Stock issued to president of The Other Phone Company Inc. for compensation | 200,000 | 200 | 99,800 | | - | | - | | 100,000 |
| Stock issued pursuant to private placements | 315,000 | 315 | 314,685 | | - | | - | | 315,000 |
| Balance, October 31, 1998 | 12,776,000 | 12,776 | 4,534,905 | | (124,730) | | (4,919,431) | | (496,480) |
| Net loss for the year ended October 31, 1999 | - | - | - | | - | | (4,994,124) | | (4,994,124) |
| Other comprehensive income: | - | - | - | | 382,440 | | - | | 382,440 |
| Unrealized holding gains arising during period | - | - | - | | 196,010 | | - | | 196,010 |
| Plus: reclassification adjustment for losses included in net loss | - | - | - | | - | | - | | (4,415,674) |
| Comprehensive income (loss) | - | - | - | | - | | - | | - |
| Stock issued to eLEC Communications in exchange for 1,420,000 shares of eLEC Communications, Inc. | 1,775,000 | 1,775 | 1,824,700 | | - | | - | | 1,826,475 |
| Exercise of put with eLEC Communications, Inc. | (1,750,000) | (1,750) | (1,799,000) | | - | | - | | (1,800,750) |
| Purchase of outstanding warrants | - | - | (520,000) | | - | | - | | (520,000) |
| Options granted for consulting services | - | - | 50,000 | | - | | - | | 50,000 |
| Balance, October 31, 1999 | 12,801,000 | \$12,801 | \$4,090,605 | | \$453,720 | | (\$9,913,555) | | (\$5,356,422) |

See accompanying notes to consolidated financial statements:

ACCESS ONE COMMUNICATIONS CORP. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

YEARS ENDED OCTOBER 31, 1999, 1998 AND 1997

| | 1999 | 1998 | 1997 |
|--|---------------|---------------|--------------|
| Cash flows from operating activities: | | | |
| Net loss | (\$4,994,124) | (\$4,761,333) | (\$ 158,098) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation and amortization | 1,008,950 | 342,897 | 22,595 |
| Provision for losses on receivables | 1,744,945 | 592,720 | 16,590 |
| Loss on sale of securities | 214,625 | 1,061,000 | - |
| Stock issued for compensation | | 100,000 | - |
| Reimbursement of expenses to cLEC Communications | | 75,000 | - |
| Expenses reimbursed through issuance of common stock | - | - | 35,000 |
| Changes in operating assets and liabilities, net of effect of acquisition in 1997: | | | |
| Accounts receivable, less amounts purchased | (455,745) | (1,262,839) | (172,679) |
| Prepaid expenses | (955) | 5,776 | (16,770) |
| Deferred finance costs | (46,174) | - | - |
| Deposits | (176,140) | (376,334) | 3,674 |
| Accounts payable | 972,781 | 1,844,500 | 159,901 |
| Accrued expenses | (1,541) | 523,087 | 44,019 |
| Total adjustments | 3,260,746 | 2,905,807 | 92,330 |
| Net cash used in operating activities | (1,733,378) | (1,855,526) | (65,768) |
| Cash flows from investing activities: | | | |
| Proceeds from sale of securities | 85,000 | 1,373,125 | - |
| Purchase of equipment | (120,207) | (203,762) | (17,969) |
| Purchased customer accounts and accounts receivable | (2,105,519) | - | - |
| Repurchase of warrants | (520,000) | - | - |
| Acquisition of OPC | - | - | (1,000,000) |
| Net cash provided by (used in) investing activities | (2,660,726) | 1,169,363 | (1,017,969) |
| Cash flows from financing activities: | | | |
| Repayment of loan payable, bank | - | (250,000) | - |
| Borrowings (repayments), Receivable Funding Corporation, net | (1,054,046) | 1,054,046 | - |
| Repayment to related parties, net | (185,000) | (239,521) | - |
| Principal payments of long-term debt | (408,415) | (215,562) | (59,822) |
| Proceeds from issuance of long-term debt | 6,837,119 | - | 502,442 |
| Proceeds from issuance of common stock and contribution to capital | - | 315,000 | 719,651 |
| Net cash provided by financing activities | 5,189,658 | 663,963 | 1,162,271 |
| Net increase (decrease) in cash and cash equivalents | 795,554 | (22,200) | 78,534 |
| Cash and cash equivalents, beginning of year | 118,042 | 140,242 | 61,708 |
| Cash and cash equivalents, end of year | \$ 913,596 | \$ 118,042 | \$ 140,242 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid - interest | \$1,018,313 | \$ 312,869 | \$ 4,462 |
| Non-cash investing and financing activities (see Notes 3 and 5) | | | |

See accompanying notes to consolidated financial statements.

ACCESS ONE COMMUNICATIONS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED OCTOBER 31, 1999, 1998 AND 1997

1. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Access One Communications Corp. and its subsidiaries ("the Company"). All significant intercompany balances and transactions have been eliminated.

Organizational Background

The Company was formerly known as CLEC Holding Corp. ("CLEC"), formerly PRS SUB II ("PRS"), was incorporated under the laws of the State of New Jersey in 1991. The Company emerged from bankruptcy, pursuant to a Bankruptcy Court Order in 1996, and was inactive until September 1997.

On September 9, 1997, the Company acquired 95% of the common stock of The Other Phone Company, Inc. ("OPC"), a reseller of local and long-distance telecommunications services to businesses and residential customers in the Southeastern United States, principally in Florida, which began operations in January, 1997. The cost of the acquisition, which was accounted for as a purchase, was \$1,927,178 (\$1,000,000 paid in cash and the remainder in seller notes (see Note 8), and the entire purchase price of \$1,927,178 was allocated to goodwill. The consolidated financial statements include the results of operations of OPC since September 9, 1997.

The following unaudited pro forma consolidated results of operations for the year ended October 31, 1997 assumes the OPC acquisition occurred as of November 1, 1996:

| | |
|----------------|--------------|
| Net sales | \$1,723,853 |
| Net loss | (\$ 561,348) |
| Loss per share | (\$.09) |

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

ACCESS ONE COMMUNICATIONS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED OCTOBER 31, 1999, 1998 AND 1997

1. Summary of Significant Accounting Policies (Continued)

Investment Securities

Marketable equity securities, all of which have represented common shares of eLEC Communications ("eLEC"), have been categorized as available for sale and as a result, are stated at fair value. Unrealized holding gains and losses are included as a component of stockholders' equity until realized. Realized gains and losses are determined based on the specific identification method.

Property and Equipment

Property and equipment are stated at cost. Depreciation is being provided by the straight-line method over the estimated useful lives of the assets, generally three to seven years. Leasehold improvements are amortized, using the straight-line method, over the term of the lease or the useful life of the improvements, whichever is shorter.

Earnings Per Share

For the year ended October 31, 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share," which replaces the presentation of primary earnings per share ("EPS") and fully diluted EPS with a presentation of basic EPS and diluted EPS. Basic EPS excludes common stock equivalents and is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if common stock equivalents such as stock options and warrants were exercised. The effect of stock options and warrants on the calculation of earnings per common share was anti-dilutive in all years but may be dilutive in the future.

Deferred Financing Costs

Deferred financing costs are amortized to interest expense over the life of the relating financing.

Purchased Customer Accounts

Purchased customer accounts are amortized over three years on a straight-line basis or the termination of the customer account, whichever is shorter.

ACCESS ONE COMMUNICATIONS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED OCTOBER 31, 1999, 1998 AND 1997

1. Summary of Significant Accounting Policies (Continued)

Goodwill

The excess of the cost of subsidiaries over the equity in underlying net assets at the dates of acquisition (goodwill) is being amortized over 7 years.

Impairment of Long-Lived Assets

The Company reviews its intangible assets and other long-lived assets for impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount of an asset should be assessed. Management evaluates the intangible assets related to each acquisition individually to determine whether an impairment has occurred. An impairment is recognized when the undiscounted future cash flows estimated to be generated by the acquired business is insufficient to recover the current unamortized balance of the intangible asset, with the amount of any such deficiency charged to income in the current year. Estimates of future cash flows are based on many factors, including (i) current operating results of the applicable business, (ii) projected future operating results of the applicable business, (iii) the occurrence of any significant regulatory changes which may have an impact on the continuity of the business, and (iv) any other material factors that affect the continuity of the applicable business.

Revenue Recognition

Revenues are recognized in the period services are provided to customers and consist primarily of charges for use of local and long-distance services.

Income Taxes

The Company provides for income taxes in accordance with Statement of Financial Accounting Standards No. 109 ("SFAS 109"), "Accounting for Income Taxes." Under the asset and liability method specified by SFAS 109, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse. Deferred tax expense is the result of changes in deferred tax assets and liabilities. The principal type of differences between assets and liabilities for financial statement and tax return purposes are allowances for doubtful accounts, depreciation and amortization, and net operating losses.

ACCESS ONE COMMUNICATIONS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED OCTOBER 31, 1999, 1998 AND 1997

1. Summary of Significant Accounting Policies (Continued)

Advertising Costs

The Company expenses advertising costs in the period incurred. Advertising expense was \$30,170, \$2,267 and \$-0- for the years ended October 31, 1999, 1998 and 1997.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The Company's principal financial instruments consist of cash and cash equivalents, investment securities, and loans and notes payable. The Company believes that the carrying amount of such instruments approximates fair value.

Recently Issued Accounting Standards

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 requires companies to classify items of other comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings, and is effective for financial statements issued for fiscal years beginning after December 15, 1997. The Company has adopted SFAS No. 130 as reflected in the accompanying consolidated financial statements.

2. Description of Business and Concentrations

The Company provides local and long-distance telecommunications services to business and residential customers in the Southeastern United States. The Company's business is highly competitive and is subject to various Federal, State and local regulations, including the Federal Communications Commission and various state public service commissions.

ACCESS ONE COMMUNICATIONS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED OCTOBER 31, 1999, 1998 AND 1997

2. Description of Business and Concentrations (Continued)

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of trade receivables. The Company's trade receivables are geographically concentrated with businesses and residential customers primarily located in the Southeastern United States. The Company continually evaluates the creditworthiness of its customers; however, it generally does not require collateral. The Company's allowance for doubtful accounts is based on historical trends, current market conditions and other relevant factors.

During the years ended October 31, 1999, 1998 and 1997, the Company purchased in excess of 90% of its telephone services under a resale agreement with one supplier, BellSouth. BellSouth is one of only a few potential suppliers for the Company's local telephone resale business and, therefore, the loss of the Company's relationship with BellSouth could adversely affect the Company's ability to continue in business.

3. Investment Securities

On October 22, 1997, the Company exchanged 3,000,000 shares of its common stock for 375,000 shares of unregistered eLEC Communications, Inc. ("eLEC") common stock, subject to certain price protection adjustments, which required eLEC to issue an additional 50,000 shares of common stock to the Company. The Company valued the entire 425,000 shares at \$1,500,000 at the exchange date and on October 31, 1997, which represented its estimate of the fair value of the aforementioned eLEC shares. During fiscal 1998, the aforementioned 425,000 shares were sold for proceeds of \$687,500, resulting in a realized loss of \$812,500.

During fiscal 1998, there were two additional exchanges of shares with eLEC. The first exchange occurred on April 23, 1998 when the Company exchanged 300,000 of its common stock for 350,000 shares of eLEC common stock. This exchange was valued at \$1,233,750. Of this first exchange, 265,000 shares were sold for proceeds of \$685,625, resulting in a realized loss of \$248,500. The second exchange occurred on September 10, 1998 when the Company exchanged 400,000 shares of its common stock for 400,000 shares of eLEC common stock. This exchange was valued at \$221,280.

ACCESS ONE COMMUNICATIONS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED OCTOBER 31, 1999, 1998 AND 1997

3. Investment Securities (Continued)

In March 1999, the Company issued to eLEC 1,775,000 shares of common stock in consideration for the issuance by eLEC to the Company of 1,420,000 shares of its common stock. In connection with such transaction, the Company was granted an option to put to eLEC for repurchase at any time on or before December 1, 1999 at the original purchase price, all or a portion of the shares of common stock the Company purchased in March 1999. In connection with any such exercise of its put option, in whole or in part, the Company was required to issue to eLEC warrants to purchase 500,000 shares of the Company common stock at a purchase price of \$1.00 per share. Prior to October 31, 1999, the Company notified eLEC of its intention to exercise the option and, on December 1, 1999, exercised its option with respect to 1,750,000 shares of the Company's common stock which has been reflected in the accompanying financial statements as of October 31, 1999. As of October 31, 1999 and 1998, the Company owned 400,000 and 485,000 shares of eLEC's common stock, which represents approximately 4% and 8% of eLEC's common stock, respectively. As of October 31, 1999 and 1998, eLEC owned approximately 31% of the Company's common stock. During fiscal 1999, the Company sold 85,000 shares of eLEC's common stock for \$85,000, resulting in a realized loss of \$214,675.

The Company's investment in eLEC shares are summarized as follows:

| | <u>Cost</u> | <u>Fair Value</u> | <u>Gross Unrealized Holding Gain (Loss)</u> |
|------------------|-------------|-------------------|---|
| October 31, 1999 | \$221,280 | \$675,000 | \$453,720 |
| October 31, 1998 | \$520,905 | \$396,175 | (\$124,730) |

4. Property and Equipment

| | <u>1999</u> | <u>1998</u> |
|---|------------------|------------------|
| Furniture and fixtures | \$ 81,687 | \$ 63,916 |
| Office equipment | 101,846 | 101,846 |
| Computer equipment | 202,062 | 152,126 |
| Billing software | 72,675 | 20,175 |
| Leasehold improvements | <u>4,268</u> | <u>4,268</u> |
| | 462,538 | 342,331 |
| Less accumulated depreciation and amortization | (162,332) | (88,271) |
| | <u>\$300,206</u> | <u>\$254,060</u> |

ACCESS ONE COMMUNICATIONS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED OCTOBER 31, 1999, 1998 AND 1997

5. Customer Base Acquisition

During the fiscal year ended October 31, 1999, in two transactions with a competitor, the Company purchased a customer base of approximately 17,500 local access lines and the associated accounts receivable from the competitor for an aggregate purchase price of approximately \$3,600,000. Approximately \$2,300,000 of the purchase price represented accounts receivable, and the remainder, \$1,300,000 was allocated to the customer base (intangible asset). Approximately \$2,100,000 of the purchase price was paid in cash, and promissory notes aggregating approximately \$1,500,000 were executed for the balance of the purchase price. Principal and interest (interest at 10.625%) are payable in equal monthly installments through June 30, 2000. As of October 31, 1999, the principal balance of the note was \$850,811, which reflects adjustments pursuant to the agreement which reduced the amount outstanding.

6. Loans Payable, Receivable Funding Corporation

The Company had a receivable financing and a senior secured promissory note with Receivables Funding Corporation ("RFC"). As of October 31, 1998, the Company had outstanding \$1,054,046 under the agreements with an interest rate of approximately 5.5% above the prime rate and had collateralized it with a security interest in the accounts receivable and certain shares of eLEC stock. In connection with the agreement, the Company granted RFC warrants to purchase 300,000 shares of the Company's stock at \$1.00 per share. The receivables financing was to have expired December 26, 1999 and the note was to have been paid over 48 months from the date of draw. On June 30, 1999, the agreement with RFC was terminated as new financing was obtained from MCG Finance Corporation ("MCG") as described in Note 8. As consideration for early termination, the Company paid RFC a termination fee of \$180,000 which was charged to expense. Additionally, the warrants were repurchased for \$520,000.

7. Due To Related Parties

| | <u>1998</u> |
|---|------------------|
| Note payable to Chairman of the Company, payable on demand, interest at 12% | \$ 20,000 |
| Note payable to eLEC, payable on demand, non-interest bearing | 75,000 |
| Note payable to a subsidiary of eLEC, payable on demand, interest at 8% | <u>90,000</u> |
| | <u>\$185,000</u> |

The above amounts were repaid during fiscal 1999.

ACCESS ONE COMMUNICATIONS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED OCTOBER 31, 1999, 1998 AND 1997

8. Long-Term Debt

Borrowings Under MCG Credit Facility Agreement

On June 30, 1999, the Company entered into a Credit Facility Agreement ("the Facility") with MCG Finance Corporation ("MCG") and other lenders that may subsequently be added to the agreement, collectively referred to as "the Lenders." Under the terms of the Facility, the Company may request periodic advances from June 30, 1999 through November 30, 1999, a maximum of \$7.5 million. The maturity date of the Facility is June 30, 2002. The Company is required to pay an origination fee of \$250,000, of which \$125,000 is due June 2000 and the balance due June 2001. On November 30, 1999, the maximum amount that the Company may borrow under the Facility was increased to \$15,000,000 to be requested through November 2000. The maximum amount of credit available under the Facility, however, shall not exceed a multiple of a portion of the Company's collections, as defined in the Facility.

For purposes of determining interest, the Company may designate and subdivide the outstanding principal balance under the Facility into a maximum of three portions. The outstanding balance under each such portion will bear interest fluctuating at two alternative rate indexes, the prime rate plus 11% or, at the three-month London Interbank Offered Rate ("LIBOR") plus 9%. The applicable rate index for each portion may be changed by the Company periodically, as defined in the Facility. Interest payable under the Facility is subdivided into two components, current interest, and deferred interest. Current interest on each principal portion is due and payable monthly at the prime rate plus 8%, or at the LIBOR rate plus 6%, depending on the rate assigned to the related portion of the loan. Deferred interest, accrues, calculated at 3%, and shall be due and payable in full in one lump sum, (at the election of the Lenders) upon the occurrence of any of the following events: (a) June 30, 2002, (b) the date that all obligations under the Facility are paid in full and the related loan documents are terminated, or (c) the occurrence of any event of default, as defined. Upon such occurrence, the Lenders may accept actual cash payment of such deferred interest, or may retain the right to exercise certain rights it has under the option under the terms set forth in an Option and Warrant Agreement. If the Lenders exercise the option in accordance with the Option and Warrant Agreement, then the Lenders shall not be entitled to receive payment of such accrued deferred interest, but may, at their election, treat such accrued deferred interest as the exercise price paid for the warrant shares if and when such warrants are exercised. The option to acquire warrants will allow MCG to purchase shares of the Company representing 10% of the issued and outstanding shares of capital stock and voting rights of the Company on a fully diluted basis. The option is exercisable immediately and may be exercised by MCG at any time prior to the earlier of the following (1) June 30, 2009 and (2) the date on which MCG accepts payment of the deferred interest.

ACCESS ONE COMMUNICATIONS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED OCTOBER 31, 1999, 1998 AND 1997

Long-Term Debt (Continued)

Borrowings Under MCG Credit Facility Agreement (Continued)

As of October 31, 1999, the interest rate on the loan was 16.3%, including the deferred interest portion.

In connection with the November 30, 1999 amendment, MCG was granted warrants to purchase 400,000 shares of common stock at \$1.55 per share, exercisable immediately through November 30, 2009.

As collateral, The Company has granted the Lender a security interest in substantially all assets of the Company. As additional collateral for the Facility, certain shareholders gave a security interest in all of their equity ownership interests in the Company. The Facility contains various covenants and ratios. Among others, the Company must maintain (1) an escalating minimum number of access lines, (2) an escalating minimum gross profit margin percentage, (3) a minimum operating cash flow (as defined), (4) an escalating amount of minimum revenue, (5) a leverage ratio of funded debt (as defined) to qualifying collections (as defined) of 4.5 to 1 through December 31, 1999 and 4.25 to 1.0 thereafter, and (5) an attrition rate (as defined) of not more than 5% from September 30, 1999 through December 31, 1999 and 4% thereafter. In addition, the Company (1) has an annual limitation on capital expenditures of \$250,000, (2) cannot create borrowings, indebtedness, guarantees, liens, other than as defined in the Facility, and (3), cannot merge with another entity or declare or make any payment or distribution with respect to, or incur any liability for the purchase acquisition, redemption or retirement of, any of its equity interests or as a dividend, return of capital or other payment or distribution of any kind to any holder of any such equity.

Other

Long-term debt outstanding on October 31, 1998 consisted of notes payable to John Murray related to the purchase of 95% of OPC. The note was paid in full during fiscal 1999.

ACCESS ONE COMMUNICATIONS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED OCTOBER 31, 1999, 1998 AND 1997

9. Income Taxes

At October 31, 1999, the Company has an operating loss carryforward of approximately \$7,000,000 which is available to offset future taxable income. A valuation allowance has been recognized to offset the full amount of the deferred tax asset of approximately \$2,800,000 and \$1,200,000 at October 31, 1999 and 1998 due to the uncertainty of realizing the benefit of the loss carryforwards. The loss carryforwards will expire in March 2019.

The valuation allowance at October 31, 1997 was \$30,000.

The Company's effective income tax rate differs from the federal statutory rates as follows:

| | <u>1999</u> | <u>1998</u> | <u>1997</u> |
|---|----------------|----------------|----------------|
| Federal statutory rate | 34.0% | 34.0% | 34.0% |
| Utilization of net operating loss carryforwards | <u>(34.0)</u> | <u>(34.0)</u> | <u>(34.0)</u> |
| | <u>-</u> | <u>-</u> | <u>-</u> |

10. Commitments and Contingencies

Leases

On October 21, 1999, the Company executed a noncancelable lease for a new facility to commence in December 1999. The commencement date of the lease is later. The lease expires five years after the commencement date. The Company will be responsible for a pro rate share of operating expenses for the building. With the exception of real estate taxes, insurance and utilities, Landlord shall cap increases in operating expenses at five percent (5%) per annum.

The Company also leases other office facilities and certain equipment under operating leases that expire through 2004. The leases require minimum annual rental and certain other expenses including maintenance and taxes. Rent expense for the years ended October 31, 1999, 1998 and 1997 was approximately \$107,000, \$86,000 and \$7,000.

As of October 31, 1999, the Company's future minimum rental commitments are as follows:

| | |
|------|------------------|
| 2000 | \$213,238 |
| 2001 | 185,386 |
| 2002 | 196,076 |
| 2003 | 198,966 |
| 2004 | <u>142,434</u> |
| | <u>\$936,100</u> |

ACCESS ONE COMMUNICATIONS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED OCTOBER 31, 1999, 1998 AND 1997

11. Stockholders' Equity

Stock Issued for Compensation

On December 1, 1997, pursuant to an employment agreement, the Company issued 200,000 shares of unregistered common stock to the new President of OPC. Compensation expense of \$100,000 was recorded in fiscal 1998 for these shares.

Stock Options

On October 22, 1997, the Company, pursuant to the eLEC Stock Purchase Agreement, granted to eLEC's nominee to the Board of Directors options to purchase up to 100,000 shares of common stock for up to three years at an exercise price of \$1.00 per share.

On December 1, 1997, the Company granted options to the President of OPC to purchase 800,000 shares of common stock for up to three years at an exercise price of \$.50 per share.

In December 1997, January 1998 and February 1998, the Company granted options to employees to purchase 200,000 shares of common stock at an exercise price of \$1.00 per share. These options were issued to four officers of OPC. Options to purchase 50% of the shares of common stock will vest at the one-year anniversary of grant, 25% at the two-year anniversary of grant and the balance of 25% at the three-year anniversary of grant. These options will expire in five years.

In June 1999, the Company adopted the 1999 Stock Option Plan. Under the Plan, the Company may grant options to its employees, directors and consultants for up to 1,600,000 shares of its common stock, subject to adjustment. Incentive stock options may be granted at no less than the fair market value of the Company's stock on the date of grant, and in the case of an optionee who owns directly or indirectly more than 10% of the outstanding voting stock, 110% of the market price on the date of the grant. The maximum term of an option is ten years.

ACCESS ONE COMMUNICATIONS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED OCTOBER 31, 1999, 1998 AND 1997

11. Stockholders' Equity (Continued)

The following table summarizes information about the options outstanding at October 31, 1999:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|--------------------------------|-----------------------|--|---|-----------------------|---|
| | Number Outstanding | Weighted- Average Remaining Contractual Life (Years) | Weighted- Average Exercise Price | Number Outstanding | Weighted- Average Exercise Price |
| \$.50 | 800,000 | 3.08 | \$.50 | 800,000 | \$.50 |
| \$1.00 | 250,000 | 3.10 | \$1.00 | 175,000 | \$1.00 |
| \$1.50 - \$1.65 | 451,000 | 9.62 | \$1.53 | - | - |

SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123"), established a fair value method of accounting for employee stock options and similar equity instruments. The fair value method requires compensation cost to be measured at the grant date, based on the value of the award, and recognized over the service period. SFAS No. 123 allows companies to either account for stock-based compensation under the provision of SFAS No. 123 or under the provisions of APB No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). The Company has elected to account for its stock-based compensation in accordance with the provisions of APB No. 25 and has provided pro forma disclosures of net loss as if the fair value method has been adopted.

For disclosure purposes, the fair value of each stock option grant is estimated on the date of grant using the Black Scholes option-pricing model with the following weighted average assumptions used for stock options granted: annual dividends of \$0.00 for all years, expected volatility of 0% for all years, risk-free interest rate of 5.80% for fiscal 1999, 5.96% for fiscal 1998 and 6.33% for fiscal 1997, and expected life of ten years for options granted during fiscal 1999 and five years for all other grants. The weighted-average fair value of stock options granted in fiscal 1999, 1998 and 1997 was \$.63, \$.15 and \$.27, respectively.

Under the above model, the total value of stock options granted in fiscal 1999, 1998 and 1997 was \$220,803, \$139,569 and \$26,772, respectively, which would be amortized ratably on a pro forma basis over the related vesting periods, which range from immediate vesting to three years. Had the Company determined compensation cost for these plans in accordance with SFAS No. 123, the Company's pro forma net loss would have been (\$5,071,314) in fiscal 1999, (\$4,876,001) in fiscal 1998 and (\$184,870) in fiscal 1997, the Company's pro forma loss per share would be (\$.40) for fiscal 1999, (\$.42) for fiscal 1998 and \$.06 for fiscal 1997.

ACCESS ONE COMMUNICATIONS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED OCTOBER 31, 1999, 1998 AND 1997

11. Stockholders' Equity (Continued)

Stock Warrants

On September 9, 1997, in connection with borrowings from related parties, the Company granted warrants to such related parties to purchase 500,000 shares of common stock. The exercise price is \$1.20 for a period of three years. On December 25, 1997, the Company granted warrants to purchase 25,000 shares of common stock to an individual. The exercise price is \$1.20 for a period of three years. The Company has determined that the warrants did not have any significant value at the date of issuance and, accordingly, no portion of the proceeds of the related debt was allocated to the warrants. None of the warrants were exercised during the years ended October 31, 1999, 1998 and 1997.

12. Subsequent Events

On November 29, 1999, the Company acquired OmniCall, Inc. ("OmniCall"), a competitive local exchange carrier located in South Carolina. The acquisition will be accounted for as a purchase and was effectuated by the Company issuing 6,493,776 of its common stock for all the issued and outstanding shares of OmniCall. The purchase price will be allocated to the assets acquired and the liabilities assumed based upon their estimated fair values.

Attachment 4

Talk.com SEC Filing

Yeager; Lee Simpson; Lori Kline; Mark Lammert; Marlene Galvan; Mary Ann Wall; Miguel Hernandez; Monique Byrnes; Nancy Klein; Patricia Atkisson; Ricardo Lattimore; Richard Doria; Rick Johnson; Robin Norton; Serena Puricelli; Shari Dawson; Steve Methven; Suzanne Pagana; Tom Forte
Subject: Vacation

Please email me today with a list of days or half days you plan to be gone for this month.

Thank you.

Connie

Re: FW: Local / LD Only

Subject: Re: FW: Local / LD Only

Date: Thu, 07 Dec 2000 16:40:56 -0500

From: Connie Wightman <cwightman@tminc.com>

Organization: Technologies Management, Inc.

To: "Tecce, Tina" <TTecce@TALK.COM>

I don't remember this. But I do remember asking about this and insisting that you had to let them drop LD and keep local or drop local and keep ld. This answers the latter. What about the former?

I'll work this in with the other changes.

Connie

"Tecce, Tina" wrote:

> Hello, me again....I sent you this before but I am sure it has been
> forgotten about since the only reason I remember is because I happened to
> print it out. Any idea on how we can do this? George must think it is
> important because he never sends me emails regarding regulatory
> stuff....usually only to tell me how wonderful he is.
>
> Tina
>
> > -----Original Message-----
> > From: Vinall, George
> > Sent: Monday, December 04, 2000 1:21 PM
> > To: Tecce, Tina; Kirk, Alan; Wilson, Julie; McComb, Francie
> > Subject: Local / LD Only
> >
> > Tina:
> >
> > When a bundled Local/LD customer leaves us for local, but remains our PIC
> > for LD, we are going to charge them 9.9 cents per min and LCS but no
> > monthly fee (obviously dropping the monthly bundle fee). When a 10% combo
> > customer leaves us for local but not LD we are going to leave them on
> > their existing rate plan (either 5/5.95 or 9 no fee). We should note in
> > our FCC tariff these conditions.
> >
> > Thanks GV

Connie Wightman

From: Iris Mennens
Sent: Thursday, December 07, 2000 3:43 PM
To: Connie Wightman; Kathy Steinke
Subject: RE: Vacation

12/26 and 12/29 it will be then.

iris

-----Original Message-----

From: Connie Wightman
Sent: Thursday, December 07, 2000 7:56 AM
To: Iris Mennens
Subject: RE: Vacation

Just get it in before the end of the year. Donna is taking a half day on 12/22 and half day on 12/15.

Connie

-----Original Message-----

From: Iris Mennens
Sent: Wednesday, December 06, 2000 9:02 AM
To: Connie Wightman
Subject: RE: Vacation

two - but i don't know when to take it - i have no plans. Just let me know when is good for you when I take that one.

Otherwise maybe 12/29?? that is a friday.

-----Original Message-----

From: Connie Wightman
Sent: Tuesday, December 05, 2000 5:45 PM
To: Iris Mennens
Subject: RE: Vacation

Do you have one day or two left?

Connie

-----Original Message-----

From: Iris Mennens
Sent: Tuesday, December 05, 2000 11:42 AM
To: Connie Wightman
Subject: RE: Vacation

December 26, 2000

-----Original Message-----

From: Connie Wightman
Sent: Tuesday, December 05, 2000 9:04 AM
To: Amy Gross; Ann Kemp; Barbara Topper; Brenda Nixon; Carey Roesel; Cathryn Ekern; Donna McGinnis; Dorothy Keller; Elizabeth Corddry; Frances Martens; George Pittman; Grace Stanley; Heather Balogh; Iris Mennens; Jack Logsdon; Jackie Harris; Jennifer Clark; Jennifer Shoemaker; Karen Gillespie; Karen Ritter; Kathy Steinke; Kay Noeth; Ken

TALK COM

Filing Type: 10-Q
Description: Quarterly Report
Filing Date: Nov 14, 2000
Period End: Sep 30, 2000

Primary Exchange: NASDAQ - National Market
System
Ticker: TALK

Table of Contents

To jump to a section, double-click on the section name.

10-Q OTHERDOC

| | |
|---------------------------|----|
| Part I | 2 |
| Item 1 | 2 |
| Balance Sheet | 3 |
| Income Statement | 4 |
| Table3 | 5 |
| Cash Flow Statement | 6 |
| Table5 | 13 |
| Table6 | 14 |
| ITEM 2 | 16 |
| Table7 | 17 |
| ITEM 3 | 31 |
| PART II | 32 |
| ITEM 2 | 32 |
| ITEM 6 | 32 |

EX-10.1 OTHERDOC

| | |
|------------------------|----|
| EX-10.1 OTHERDOC | 34 |
|------------------------|----|

EX-10.2 OTHERDOC

| | |
|------------------------|----|
| EX-10.2 OTHERDOC | 43 |
|------------------------|----|

EX-10.3 OTHERDOC

| | |
|------------------------|----|
| EX-10.3 OTHERDOC | 52 |
|------------------------|----|

EX-10.4 OTHERDOC

| | |
|---------------|----|
| Table8 | 58 |
| Table9 | 59 |
| Table10 | 60 |
| Table11 | 61 |
| Table12 | 63 |
| Table13 | 63 |

EX-10.5 OTHERDOC

| | |
|------------------------|-----|
| EX-10.5 OTHERDOC | 143 |
|------------------------|-----|

EX-27 OTHERDOC

| | |
|------------------------|-----|
| Exhibit 27 Table | 155 |
|------------------------|-----|

Document is copied.

=====

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2000

OR

[] TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO _____

COMMISSION FILE NUMBER 0 - 26728

TALK.COM INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State of incorporation)

23-2827736

(I.R.S. Employer Identification No.)

12020 SUNRISE VALLEY DRIVE, SUITE 250

RESTON, VIRGINIA

(Address of principal executive offices)

20191

(Zip Code)

(703) 391-7500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

78,021,134 shares of Common Stock, par value of \$0.01 per share, were outstanding as of November 13, 2000.

=====

TALK.COM INC. AND SUBSIDIARIES

INDEX

PAGE

PART I - FINANCIAL INFORMATION:

Item 1. Financial Statements

| | |
|--|----|
| Consolidated Balance Sheets - September 30, 2000 (Unaudited) and December 31, 1999..... | 3 |
| Consolidated Statements of Operations - Three and Nine Months Ended September 30, 2000 and 1999 (Unaudited)..... | 4 |
| Consolidated Statement of Stockholders' Equity - Nine Months Ended September 30, 2000 (Unaudited)..... | 5 |
| Consolidated Statements of Cash Flows - Nine Months Ended September 30, 2000 and 1999 (Unaudited)..... | 6 |
| Notes to Consolidated Financial Statements (Unaudited)..... | 7 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations..... | 13 |
| Item 3. Quantitative and Qualitative Disclosures about Market Risk..... | 21 |
| PART II - OTHER INFORMATION: | |
| Item 2. Changes in Securities and Use of Proceeds..... | 22 |
| Item 6. Exhibits and Reports on Form 8- K..... | 22 |

TALK.COM INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS, EXCEPT SHARE DATA)

| ASSETS | UNAUDITED SEPTEMBER 30, 2000 | DECEMBER 31, 1999 |
|--|------------------------------------|----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 70,436 | \$ 78,937 |
| Accounts receivable, trade, net of allowance for uncollectible accounts of \$23,189 and \$5,011, respectively | 57,122 | 59,501 |
| Advances to partitions and notes receivable | 1,643 | 3,600 |
| Prepaid expenses and other current assets | 2,837 | 8,855 |
| Total current assets | 132,038 | 150,893 |
| Property and equipment, net of accumulated depreciation of \$20,255 and \$13,438, respectively | 81,791 | 57,335 |
| Intangibles, net | 223,204 | 1,068 |
| Other assets | 6,318 | 5,712 |
| Total assets | \$443,351 | \$215,008 |
| ===== | | |
| LIABILITIES, CONTINGENCIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable, trade and other | \$ 75,205 | \$ 47,965 |
| Partitions | 804 | 1,676 |
| Notes payable | 15,907 | -- |
| Deferred revenue | 1,571 | -- |
| Taxes and other | 12,823 | 14,127 |
| Total current liabilities | 106,310 | 63,768 |
| Convertible debt | 84,950 | 84,985 |
| Deferred revenue | 15,450 | 21,000 |
| Total liabilities | 206,710 | 169,753 |
| Commitments and contingencies: | | |
| Contingent redemption value of common stock | 54,019 | 5,152 |
| Stockholders' equity: | | |
| Preferred stock - \$.01 par value per share, 5,000,000 shares authorized; no shares issued and outstanding | -- | -- |
| Common stock - \$.01 par value per share, 300,000,000 shares authorized; 78,445,134 shares issued and 78,021,134 shares outstanding (66,972,960 shares issued and 64,854,268 shares outstanding in 1999) | 784 | 670 |
| Additional paid-in capital | 349,367 | 208,453 |
| Accumulated deficit | (161,581) | (139,300) |
| Common stock in treasury - at cost | (5,948) | (29,720) |
| Total stockholders' equity | 182,622 | 40,103 |
| Total liabilities, contingencies and stockholders' equity | \$443,351 | \$215,008 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

TALK.COM INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED - THOUSANDS OF DOLLARS, EXCEPT SHARE DATA)

| | FOR THE THREE MONTHS ENDED SEPTEMBER 30, | | FOR THE NINE MONTHS ENDED SEPTEMBER 30, | |
|---|---|-----------|--|-----------|
| | 2000 | 1999 | 2000 | 1999 |
| Sales | \$121,254 | \$140,027 | \$413,071 | \$367,738 |
| Cost of sales | 72,501 | 84,604 | 252,703 | 231,004 |
| Gross profit | 48,753 | 55,423 | 160,368 | 136,734 |
| Operating expenses (income): | | | | |
| General and administrative expenses | 18,117 | 10,609 | 43,983 | 28,600 |
| Promotional, marketing and advertising expenses | 57,738 | 27,698 | 126,901 | 63,490 |
| Depreciation and amortization | 6,326 | 1,537 | 10,168 | 4,449 |
| Significant other income | -- | -- | -- | (2,718) |
| Total operating expenses | 82,181 | 39,844 | 181,052 | 93,821 |
| Operating income (loss) | (33,428) | 15,579 | (20,684) | 42,913 |
| Interest income (expense), net | (105) | (624) | 546 | (592) |
| Other expense, net | (1,487) | (309) | (2,143) | (1,303) |
| Income (loss) before income taxes | (35,020) | 14,646 | (22,281) | 41,018 |
| Income tax benefit | (250) | -- | -- | -- |
| Income (loss) before extraordinary gain | (34,770) | 14,646 | (22,281) | 41,018 |
| Extraordinary gain | -- | 2,233 | -- | 21,230 |
| Net income (loss) | \$ (34,770) | \$ 16,879 | \$ (22,281) | \$ 62,248 |
| Basic earnings (loss) per share: | | | | |
| Income (loss) before extraordinary gain | \$ (0.48) | \$ 0.24 | \$ (0.33) | \$ 0.68 |
| Extraordinary gain | -- | 0.04 | -- | 0.35 |
| Net income (loss) | \$ (0.48) | \$ 0.28 | \$ (0.33) | \$ 1.03 |
| Diluted earnings (loss) per share: | | | | |
| Income (loss) before extraordinary gain | \$ (0.48) | \$ 0.23 | \$ (0.33) | \$ 0.65 |
| Extraordinary gain | -- | 0.04 | -- | 0.34 |
| Net income (loss) | \$ (0.48) | \$ 0.27 | \$ (0.33) | \$ 0.99 |

See accompanying notes to consolidated financial statements.

TALK.COM INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000
(UNAUDITED - THOUSANDS OF DOLLARS)

| | COMMON STOCK | | ADDITIONAL PAID-IN CAPITAL | ACCUMULATED DEFICIT | TREASURY STOCK | | TOTAL |
|--|--------------|--------|----------------------------------|------------------------|----------------|------------|-----------|
| | SHARES | AMOUNT | | | SHARES | AMOUNT | |
| Balance, January 1, 2000 | 66,973 | \$670 | \$208,453 | \$(139,300) | (2,120) | \$(29,720) | \$40,103 |
| Net income (loss) | -- | -- | -- | (22,281) | -- | -- | (22,281) |
| Exercise of common stock options | -- | -- | (2,274) | -- | 342 | 4,802 | 2,528 |
| Proceeds from rights exercised | -- | -- | 1,940 | -- | 653 | 9,154 | 11,094 |
| Issued in connection with acquisition | 11,472 | 114 | 187,926 | -- | 699 | 9,796 | 197,836 |
| Warrants issued for consulting | -- | -- | 2,175 | -- | -- | -- | 2,175 |
| Issuance of common stock for convertible debt | -- | -- | 15 | -- | 2 | 20 | 35 |
| Contingent redemption value of common stock | -- | -- | (48,868) | -- | -- | -- | (48,868) |
| Balance, September 30, 2000 | 78,445 | \$784 | \$349,367 | \$(161,581) | (424) | \$(5,948) | \$182,622 |

See accompanying notes to consolidated financial statements.

TALK.COM INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED - THOUSANDS OF DOLLARS)

| | FOR THE NINE MONTHS ENDED SEPTEMBER 30, | |
|---|--|-----------|
| | 2000 | 1999 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (22,281) | \$62,248 |
| Adjustment to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Provision for bad debts | 14,544 | 2,181 |
| Depreciation and amortization | 10,168 | 4,449 |
| Deferred revenue | (3,609) | (5,550) |
| Extraordinary gain | -- | (21,230) |
| Loss on retirement of assets | 68 | -- |
| Non-cash consulting expense | 121 | -- |
| Changes in assets and liabilities, net: | | |
| (Increase) decrease in: | | |
| Accounts receivable, trade | (8,997) | (12,772) |
| Advances to partitions and notes receivable | 1,957 | (127) |
| Prepaid expenses and other current assets | 6,884 | (1,896) |
| Other assets | 2,398 | 4,084 |
| Increase (decrease) in: | | |
| Accounts payables and accrued expenses | 13,316 | (24,405) |
| Other liabilities | (3,000) | (1,850) |
| Net cash provided by operating activities | 11,569 | 5,132 |
| Cash flows from investing activities: | | |
| Capital expenditures | (29,887) | (4,671) |
| Acquisition of intangibles | (515) | -- |
| Acquisition costs, net of cash acquired | (3,285) | -- |
| Sale of securities, net | -- | 89,649 |
| Net cash provided by (used in) investing activities | (33,687) | 84,978 |
| Cash flows from financing activities: | | |
| Repayment of margin account indebtedness | -- | (49,621) |
| Acquisition of convertible debt | -- | (72,304) |
| Proceeds from exercise of options and warrants | 2,529 | 24,990 |
| Proceeds from exercise of rights | 11,093 | -- |
| AOL investment | -- | 55,000 |
| Repayment of notes payable | (5) | -- |
| Acquisition of treasury stock | -- | (7,686) |
| Net cash provided by (used in) financing activities | 13,617 | (49,621) |
| Net increase (decrease) in cash and cash equivalents | (8,501) | 40,489 |
| Cash and cash equivalents, beginning of period | 78,937 | 3,063 |
| Cash and cash equivalents, end of period | \$70,436 | \$ 43,552 |

See accompanying notes to consolidated financial statements.

TALK.COM INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIC PRESENTATION:

The consolidated financial statements include the accounts of Talk.com Inc. and its wholly owned subsidiaries, (collectively, the "Company") and have been prepared as if the entities had operated as a single consolidated group since their respective dates of incorporation, except as noted below. All intercompany balances and transactions have been eliminated. The consolidated financial statements include the results of operations of Access One Communications Corp. ("Access One") from August 9, 2000, when it was acquired by the Company in a merger transaction that was accounted for under the purchase method of accounting for business combinations. See Note 6 below.

The consolidated financial statements and related notes thereto as of September 30, 2000 and for the three and nine months ended September 30, 2000 and 1999 are presented as unaudited but in the opinion of management include all adjustments necessary to present fairly the information set forth therein. These adjustments consist solely of normal recurring accruals. The consolidated balance sheet information for December 31, 1999 was derived from the audited financial statements included in the Company's Form 10-K, as amended. These interim financial statements should be read in conjunction with the Form 10-K report, as amended. The interim results are not necessarily indicative of the results for any future periods. Certain prior year amounts have been reclassified for comparative purposes.

Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), requires entities to recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. SFAS No. 133, as amended by SFAS No. 138, becomes effective for all fiscal years beginning after December 31, 2000. The Company anticipates that the new standard will have no effect on its financial statements.

The Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" ("SAB 101") that became effective for the Company in the fourth quarter of 2000. SAB 101 addresses revenue recognition policies and practices of companies that report to the SEC. The Company believes its revenue recognition policies and practices comply with SAB 101.

2. AOL AGREEMENTS:

Since 1997, the Company has negotiated a number of agreements and amendments to its agreements with America Online Inc. ("AOL") for the marketing and sale of telecommunications services to AOL subscribers. A substantial amendment to the AOL agreement in January 1999 provided for: quarterly payments by the Company to AOL during the long distance exclusivity period of the agreement, with fixed quarterly payments ranging from \$10.0 to \$15.0 million (\$19.0 million after July 1, 2000 if AOL elects to provide certain additional marketing and promotions to the Company) until June 30, 2001 and quarterly payments thereafter at a fixed 5% of the Company's marginable long distance revenues from AOL subscribers in the quarter under the agreement; quarterly payments by the Company to AOL, after termination of the long distance exclusivity period and so long as AOL continues to provide certain levels of marketing and promotions to the Company under the agreement, at an annual declining fixed percentage of the Company's marginable long distance revenues from AOL subscribers under the agreement, starting at 5% and declining by one percentage point each year to 1%; the elimination of the Company's obligation to make bounty and current profit-sharing payments to AOL; alteration of the terms of the online and offline marketing arrangements between the Company and AOL; extension of the term of the AOL agreement, including the exclusivity period, until June 30, 2003, although AOL has the right, in each year beginning in 2000, to elect, on or before May 1 of such year, to end the Company's long distance exclusivity period as of June 30 of such year; elimination of AOL's rights to receive further warrants to purchase Common Stock based upon customers gained from the AOL subscriber base; AOL's contribution of up to \$4.0 million (up to \$6.0 million if the Company pays \$19.0 million as noted above) per quarter for offline marketing; and establishment of the framework for the Company to offer

additional services and products to AOL subscribers. By an amendment dated as of June 30, 2000, AOL agreed to give the Company a \$1.0 million credit in each of the second and third quarters of 2000 against amounts otherwise payable by the Company under the AOL agreement. By a further amendment dated as of August 1, 2000, in consideration of AOL's agreement to provide certain additional marketing in the last five months of 2000, the Company agreed to make additional payments to AOL of \$3.0 million in August, 2000 and \$1.0 million

additional services and products to AOL subscribers. By an amendment dated as of June 30, 2000, AOL agreed to give the Company a \$1.0 million credit in each of the second and third quarters of 2000 against amounts otherwise payable by the Company under the AOL agreement. By a further amendment dated as of August 1, 2000, in consideration of AOL's agreement to provide certain additional marketing in the last five months of 2000, the Company agreed to make additional payments to AOL of \$3.0 million in August, 2000 and \$1.0 million

TALK.COM INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

in each of the months in the fourth quarter of 2000, which amounts will be credited against the Company's payment obligations in any quarter for which the Company is required to pay at the quarterly rate of \$19.0 million, as discussed above.

AOL did not elect to exercise its right to terminate the long distance exclusivity as of June 30, 2000 and, accordingly, the exclusivity period for long distance will continue through at least June 30, 2001. AOL did provide the Company with notice that its exclusivity as to wireless services would terminate on July 1, 2000, although the Company's right to offer wireless services will continue on a non-exclusive basis.

On January 5, 1999, pursuant to an Investment Agreement between AOL and the Company, AOL purchased a total of 4,121,372 shares of Common Stock of the Company for \$55.0 million in cash and the surrender of rights to purchase 5,076,016 shares of Common Stock of the Company pursuant to various warrants held by AOL. AOL agreed to end further vesting under the outstanding performance warrant and retained vested warrants exercisable for 2,721,984 shares of Common Stock. See Note 4 below for a discussion of certain reimbursement obligations of the Company in favor of AOL.

3. RELATED PARTY TRANSACTIONS:

On January 5, 1999, Mr. Daniel Borislow, a founder of the Company and its Chairman of the Board and Chief Executive Officer, resigned as a director and officer of the Company. The Company entered into various agreements and engaged in various transactions with Mr. Borislow and certain entities in which he or his family had an interest.

In connection with Mr. Borislow's resignation, the Company paid \$1.0 million to Mr. Borislow, assigned certain automobiles to him, and continued certain of his health and medical benefits and director and officer insurance. The Company also agreed that, so long as Mr. Borislow owned beneficially at least two percent (2%) of the Common Stock (on a fully diluted basis), Mr. Borislow and trusts for the benefit of his children would be entitled to: registration rights with respect to their shares of Common Stock, the right to require the Company to use a portion of proceeds from any public or private sale of debt securities, excluding borrowings from a commercial bank or other financial institution, by the Company to repurchase debt securities of the Company owned by Mr. Borislow or the trusts for the benefit of his children, and the right to require the Company to use the proceeds from the exercise of stock options by other employees or the exercise of rights, to repurchase Common Stock owned by Mr. Borislow or the trusts for the benefit of his children. The Company also agreed that, so long as Mr. Borislow had such beneficial ownership, the Company would not, without the prior written consent of Mr. Borislow and subject to certain exceptions: (a) engage in certain significant corporate transactions, including the sale or encumbrance of substantially all of its assets, mergers and consolidations and certain material acquisitions, or, (b) for a period of 18 months from the agreement date, offer or sell any of its Common Stock unless and until Mr. Borislow and the trusts have sold or otherwise disposed of all of the shares of Common Stock held by him on the agreement date. In turn, Mr. Borislow terminated his employment with the Company and agreed not to compete with the Company for at least one year. Mr. Borislow also agreed to guarantee up to \$20.0 million of the Company's obligations in connection with the AOL investment discussed in Note 4. As of September 30, 2000, Mr. Borislow and the two trusts for the benefit of Mr. Borislow's children, which have the ability to distribute Common Stock to Mr. Borislow, held less than an aggregate of 2% of the outstanding Common Stock. Accordingly, the Company believes that the restrictions described above no longer apply to the Company.

During 1999, the Company (a) purchased from Mr. Borislow, and two trusts for the benefit of Mr. Borislow's children, \$85.9 million aggregate principal amount of the Company's Convertible Notes for \$72.3 million in cash; (b) exchanged the remaining \$53.7 million principal amount of subordinated notes of Communication TeleSystems International d/b/a WorldxChange Communications, which were included in other assets at December 31, 1998, to a trust for the benefit

of Mr. Borislow's children for \$62.5 million aggregate principal amount of the Company's Convertible Notes and (c) purchased \$9.0 million aggregate principal amount of the Company's Convertible Notes for \$6.9 million in Common Stock. Also during 1999, pursuant to the agreements with Mr. Borislow as described above the Company purchased from Mr. Borislow approximately 639,000 shares of Common Stock for approximately \$7.7 million with proceeds from the exercise of stock options by other employees.

TALK.COM INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

On January 6, 2000, the Company repurchased from Mr. Borislow for \$2.5 million real property previously sold to Mr. Borislow constituting the Company's facilities in New Hope, Pennsylvania.

4. STOCKHOLDERS' EQUITY:

CONTINGENT REDEMPTION VALUE OF COMMON STOCK

Under the terms of the Investment Agreement with AOL (see Note 2 above), the Company agreed to reimburse AOL for losses AOL may incur on the sale of any of the shares of Common Stock held by AOL during the period from June 1, 1999 through September 30, 2000. The Company has the first right to purchase any of the shares of Company common stock held by AOL at the market value on the day that AOL notifies the Company of its intent to sell any of the shares plus an amount, if any, equal to the Company's reimbursement obligation described below. The reimbursement amount would be determined by multiplying the number of shares, if any, that AOL sells during the applicable period by the difference between the purchase price per share paid by AOL, or \$19 per share, and the price per share that AOL sells the shares for, if less than \$19 per share. The reimbursement amount may not exceed \$14 per share for 2,894,737 shares and \$11 per share for 1,226,635 shares. Accordingly, the maximum amount payable to AOL as reimbursement on the sale of AOL's shares would be approximately \$54.0 million plus AOL's reasonable expenses incurred in connection with the sale.

By an amendment dated as of August 2, 2000, the period during which AOL may exercise its rights to reimbursement for losses on the sale of stock, as described above, was extended from September 30, 2000 to September 30, 2001. Also as of August 2, 2000, the Company received a letter from AOL confirming that AOL does not intend to exercise such rights to reimbursement for shortfalls earlier than December 31, 2000.

The Company has the option of issuing a six-month 10% note payable to AOL to satisfy the reimbursement amount or other amounts payable on exercise of its first refusal rights. Assuming AOL were to sell all of its shares subject to the Company's reimbursement obligation at the closing price of Common Stock as of September 30, 2000, the reimbursement amount would be approximately \$54.0 million. At September 30, 2000, the Company recorded \$54.0 million for the contingent redemption value of this Common Stock with a corresponding reduction in additional paid-in capital. AOL also has the right on termination of long distance exclusivity under the AOL marketing agreements to require the Company to repurchase the warrants to purchase 2,721,984 shares of Common Stock of the Company held by AOL for an aggregate price of \$36.3 million, which repurchase price can be paid in Common Stock or cash (provided that some portion of the repurchase price may be payable in a quarterly amortization, two-year promissory note of the Company if the repurchase price exceeds the then current valuation of the warrants being purchased). AOL did not elect to terminate the long distance exclusivity as of June 30, 2000, but can so elect as of June 30, 2001 and 2002. The Company has pledged the stock of its subsidiaries and has agreed to fund an escrow account of up to \$35.0 million from 50% of the proceeds of any debt financing, other than a bank, receivable or other asset based financing of up to \$50.0 million, to secure its obligations under the Investment Agreement with AOL. AOL has agreed that it will subordinate its security interests to permit the securitization of certain future financings by the Company. Mr. Borislow has agreed to guarantee up to \$20.0 million of the Company's reimbursement obligations under the Investment Agreement with AOL.

5. LEGAL PROCEEDINGS:

On June 16, 1998, a purported shareholder class action was filed in the United States District Court for the Eastern District of Pennsylvania against the Company and certain of its officers alleging violation of the securities laws in connection with certain disclosures made by the Company in its public filings and seeking unspecified damages. Thereafter, additional lawsuits making substantially the same allegations were filed by other plaintiffs in the same court. A motion to dismiss was granted as to certain officers of the Company and

denied as to the Company. There are currently no officers of the Company who are a party to these actions. On July 19, 2000 a class was certified. The Company believes the allegations in the complaints are without merit and intends to defend the litigations vigorously. The Company also is a party to certain legal actions and regulatory investigations arising in the ordinary course of business.

TALK.COM INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Company believes that the ultimate outcome of the foregoing actions will not result in liability that would have a material adverse effect on the Company's financial condition or results of operations.

6. ACQUISITION:

On August 9, 2000, a wholly owned subsidiary of the Company merged with and into Access One Communications Corp., a New Jersey corporation ("Access One"), pursuant to the Agreement and Plan of Merger, dated as of March 24, 2000, between the Company and Access One. Access One was a private, local telecommunications service provider to nine states in the southeastern United States. As a result of such merger, Access One became a wholly owned subsidiary of the Company and Access One stockholders received 0.571428 shares of the Company's common stock in exchange for each share of Access One common stock held by such stockholders at the effective time of the merger, or an aggregate of approximately 12.2 million shares of the Company's common stock, and outstanding options and warrants to purchase shares of Access One common stock converted to options and warrants to purchase an aggregate of 2.1 million shares of the Company's common stock. The total purchase price was approximately \$201.3 million and the merger was accounted for under the purchase method of accounting for business combinations. Accordingly, the consolidated financial statements include the results of operations of Access One from the merger date. The merger resulted in the recording of intangible assets of approximately \$224.6 million, which are being amortized on a straight-line basis over their expected benefit period of 10 years. As of September 30, 2000, the Company had \$15.9 million of notes payable outstanding, which were acquired as part of the acquisition of Access One.

The following unaudited pro forma information presents a summary of the consolidated results of operations of the Company as if the Access One merger had taken place at the beginning of the periods presented.

| | (In thousands, except share data) Nine Months Ended September 30, | |
|---|--|-----------|
| | 2000 | 1999 |
| Sales | \$444,277 | \$388,026 |
| Income (loss) before extraordinary gain | \$(45,409) | \$15,226 |
| Extraordinary gain | -- | 21,230 |
| Net income (loss) | \$(45,409) | \$36,456 |
| Basic earnings (loss) per common share: | | |
| Income (loss) before extraordinary gain | \$ (0.58) | \$0.21 |
| Net income (loss) | \$ (0.58) | \$0.50 |
| Diluted earnings (loss) per common share: | | |
| Income (loss) before extraordinary gain | \$ (0.58) | \$0.20 |
| Net income (loss) | \$ (0.58) | \$0.48 |

The pro forma consolidated results of operations include adjustments to give effect to amortization of intangibles, consulting fees and shares of common stock issued. These unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have occurred had the merger been made at the beginning of the periods presented or the future results of the combined operations.

TALK.COM INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

7. PER SHARE DATA:

Basic earnings per common share is calculated using the average shares of common stock outstanding, while diluted earnings per common share reflects the potential dilution that could occur if stock options and warrants were exercised. Earnings per share are computed as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|----------|------------------------------------|----------|
| | 2000 | 1999 | 2000 | 1999 |
| Income (loss) before extraordinary gain | \$ (34,770) | \$14,646 | \$ (22,281) | \$41,018 |
| Extraordinary gain | -- | 2,233 | -- | 21,230 |
| Net income (loss) | \$ (34,770) | \$16,879 | \$ (22,281) | \$62,248 |
| Average shares of common stock outstanding used to compute basic earnings per common share | 72,839 | 61,343 | 68,005 | 60,233 |
| Additional common shares to be issued assuming exercise of stock options and warrants, net of shares assumed reacquired | -- | 2,137 | -- | 2,860 |
| Shares used to compute dilutive effect of stock options | 72,839 | 63,480 | 68,005 | 63,093 |
| Basic earnings (loss) per share: | | | | |
| Income (loss) before extraordinary gain | \$ (0.48) | \$ 0.24 | \$ (0.33) | \$ 0.68 |
| Extraordinary gain | -- | 0.04 | -- | 0.35 |
| Net income (loss) | \$ (0.48) | \$ 0.28 | \$ (0.33) | \$ 1.03 |
| Diluted earnings (loss) per share: | | | | |
| Income (loss) before extraordinary gain | \$ (0.48) | \$ 0.23 | \$ (0.33) | \$ 0.65 |
| Extraordinary gain | -- | 0.04 | -- | 0.34 |
| Net income (loss) | \$ (0.48) | \$ 0.27 | \$ (0.33) | \$ 0.99 |

The diluted share basis for the three months and nine months ended September 30, 2000 excludes incremental shares related to stock options and warrants of 633,304 and 1,557,978, respectively. These shares are excluded due to their antidilutive effect as a result of the Company's net loss.

8. SUBSEQUENT EVENTS:

On October 20, 2000, certain subsidiaries of the Company entered into a Credit Facility Agreement with MCG Finance Corporation providing for a term loan of up to \$20.0 million and a line of credit facility permitting such subsidiaries to borrow up to an additional \$30.0 million. The effectiveness of the line of credit facility is subject, among other things, to the successful syndication of that facility, which is expected to occur in 2001. Loans under the Credit Facility Agreement bear interest at a rate equal to either (a) the Prime Rate, as published by the Board of Governors of the Federal Reserve System, or (b) LIBOR, plus, in each case, the applicable margin. The applicable margin will initially be 2.5% for borrowings accruing interest at the Prime Rate and 4% for borrowings accruing interest at LIBOR; after December 31, 2000, the applicable margin will be based on the ratio of funded debt to trailing twelve-month operating cash flow, determined on a consolidated basis, and will vary from 2.0% to 2.5% for borrowings accruing interest at the Prime Rate and from 3.5% to 4.0% for borrowings accruing interest at LIBOR. The Credit Facility Agreement subjects the Company and its subsidiaries to certain restrictions and covenants.

TALK.COM INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

related to, among other things, liquidity, per-subscriber revenue, subscriber acquisition costs, leverage ratio and interest coverage ratio requirements. The credit facilities under the Credit Facility Agreement terminate on June 30, 2001, but can be extended at the Company's election up to June 30, 2005 for the term loan facility and up to June 30, 2003 for the line of credit facility. The principal of the term loan is required to be repaid in quarterly installments of \$1.25 million on the last calendar day of each fiscal quarter, commencing on September 30, 2001. The loans under the Credit Facility Agreement are secured by a pledge of all of the assets of the subsidiaries of the Company that are parties to that agreement. In addition, the Company has guaranteed the obligations of those subsidiaries under the Credit Facility Agreement and related documents; the Company's guarantee subjects the Company to certain restrictions and covenants, including a prohibition against the payment of dividends in respect of the Company's equity securities, except under certain limited circumstances. Upon its execution of the Credit Facility Agreement, the Company issued warrants for 300,000 shares of its common stock, which become exercisable at \$4.36 per share, if the Company fails to exceed certain EBITDA thresholds for the fiscal quarters ended December 31, 2000 and March 31, 2001. The Company is also required to issue warrants exercisable for an additional 300,000 shares of common stock (exercisable immediately) on the date on which the line of credit facility is successfully syndicated (provided such date occurs prior to March 31, 2001). On October 20, 2000, the Company borrowed \$20.0 million under the term loan facility (approximately \$15.0 million was used to repay indebtedness of Access One).

TALK.COM INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS:

OVERVIEW

Talk.com Inc., through its subsidiaries, provides telecommunications services to residential and small business customers throughout the United States, primarily through its electronic billing and customer service platform. Talk.com Inc. and its subsidiaries are sometimes together referred to as the "Company" and as "Talk.com".

The Company's telecommunications service offerings include long distance and local outbound service, including local services bundled with long distance services, internet service, inbound toll-free service and dedicated private line services for data. On August 9, 2000, a wholly owned subsidiary of the Company merged with and into Access One Communications Corp. ("Access One"), a New Jersey corporation, pursuant to the Agreement and Plan of Merger, dated as of March 24, 2000, between the Company and Access One. Access One was a private, local telecommunications service provider to nine states in the southeastern United States. As a result of the merger, Access One became a wholly owned subsidiary of the Company and Access One stockholders received 0.571428 shares of the Company's common stock in exchange for each share of Access One common stock held by such stockholders at the effective time of the merger, or an aggregate of approximately 12.2 million shares of the Company's common stock, and outstanding options and warrants to purchase shares of Access One common stock converted to options and warrants to purchase an aggregate of 2.1 million shares of the Company's common stock. Using a March 2000 agreement with Access One, the Company began offering local telecommunication service in Florida, Georgia, North Carolina, South Carolina, Kentucky, Louisiana, Mississippi, Tennessee, Alabama and New York in the second quarter of 2000. In the second quarter of 2000, the Company also began offering a bundle of long distance and local service to small business and select residential customers in the nine southeastern states serviced by Access One, through the Company's marketing partnerships and new direct channels. Late in the third quarter of 2000, the Company began offering local telecommunication services in Pennsylvania. The Company expects to continue to add to the states in which it offers local and bundled local and long distance telecommunication services.

The Company believes that it has an opportunity to capture additional market share and accelerate future growth through its offerings of local and bundled local and long distance telecommunications services. In connection with its rollout of local services, the Company anticipates that the higher level of marketing and promotional expenditures during the first nine months of 2000 compared to 1999 will continue. However, the marketing and promotional expenditures for the fourth quarter of 2000 are expected to decrease on an absolute basis and as a percentage of revenue as compared to the third quarter of 2000. With the extension of the Company's long distance exclusivity period with AOL until at least June 2001, the Company also will continue to expend significant marketing dollars with AOL. The Company believes that, primarily because of these marketing and advertising expenditures, it will report a net loss for the fourth quarter of 2000 and the full year 2000. Notwithstanding the foregoing, the Company expects its EBITDA loss in the fourth quarter of 2000 to be substantially less than for the third quarter of 2000 and that it will achieve EBITDA breakeven in the first quarter of 2001. EBITDA means net income or loss adjusted to eliminate interest income and expense, taxes, depreciation and amortization.

TALK.COM INC. AND SUBSIDIARIES

RESULTS OF OPERATIONS

The following table set forth for the periods indicated certain financial data as a percentage of sales:

| | FOR THE THREE MONTHS ENDED SEPTEMBER 30, | | FOR THE NINE MONTHS ENDED SEPTEMBER 30, | |
|---|---|--------|--|--------|
| | 2000 | 1999 | 2000 | 1999 |
| Sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 59.8 | 60.4 | 61.2 | 62.8 |
| Gross profit | 40.2 | 39.6 | 38.8 | 37.2 |
| Operating expenses (income): | | | | |
| General and administrative expenses | 14.9 | 7.6 | 10.6 | 7.8 |
| Promotional, marketing and advertising expenses | 47.6 | 19.8 | 30.7 | 17.3 |
| Depreciation and amortization | 5.2 | 1.1 | 2.5 | 1.2 |
| Significant other income | -- | -- | -- | (0.8) |
| Total operating expenses | 67.7 | 28.5 | 43.8 | 25.5 |
| Operating income (loss) | (27.5) | 11.1 | (5.0) | 11.7 |
| Interest income (expense), net | (0.1) | (.4) | 0.1 | (.1) |
| Other expense, net | (1.2) | (.2) | (0.5) | (.4) |
| Income (loss) before income taxes | (28.8) | 10.5 | (5.4) | 11.2 |
| Provision for income taxes | 0.2 | -- | -- | -- |
| Income (loss) before extraordinary gain | 0.0 | 10.5 | (5.4) | 11.2 |
| Extraordinary gain | -- | 1.6 | -- | 5.7 |
| Net income (loss) | (28.6%) | 12.1% | (5.4%) | 16.9% |

QUARTER ENDED SEPTEMBER 30, 2000 COMPARED TO QUARTER ENDED SEPTEMBER 30, 1999

Sales

Sales decreased by 13.4% to \$121.3 million for the quarter ended September 30, 2000 from \$140.0 million for the quarter ended September 30, 1999. This decrease was a result of the Company's exit from the international wholesale business, a decline in the number of long distance customers, and a reduction in the Company's other sales. The Company elected to exit the international wholesale business, because of the low gross profit margins associated therewith. The decrease in long distance sales was partially offset by growth in sales from new local customers and the revenues from Access One since the date of the merger. During the second quarter of 2000, there was a significant reduction in the principal marketing opportunity provided to the Company by AOL, which resulted in a decline in gross additions of new long distance customers. In addition, the Company instituted new collection procedures in the first quarter of 2000, which the Company believes contributed to customer terminations during the introduction period of the new procedures at a rate greater than the Company's historical churn experience. With the reduction in long distance sales from the interruption of its primary AOL marketing channel, increased churn, the exit from the international wholesale business and the decline in other sales, the Company experienced a reduction in total sales for the third quarter ended September 30, 2000 from total sales of \$135.8 million in the second quarter of 2000. The Company believes that revenue from its long distance business will be sequentially flat in the fourth quarter of 2000 compared to the third quarter of 2000.

While the Company believes it offers competitively priced services, sales could be adversely affected by the intense competition in this industry. In addition, the Company's ability to provision long distance and local bundled services directly affects sales. Growth in the Company's sales of local services will also be affected by the Company's ability to continue to expand its

offerings of such services to new states and to continue to build share in existing markets.

TALK.COM INC. AND SUBSIDIARIES

A significant percentage of the Company's revenues in the quarters ended September 30, 2000 and 1999 were derived from long distance telecommunications services provided to customers who were obtained under the AOL agreement and a significant decline in its AOL subscribers that is not offset by growth in other subscribers could have a significant effect on the Company's results of operations and cash flow. While the Company's rights to market long distance exclusively under the AOL agreement do not expire until June 30, 2003, AOL has the right in each year beginning in 2000, to elect, on or before May 1 of such year, to permit others to market long distance telecommunications services after June 30 of such year to AOL's subscribers. Notwithstanding any such AOL election, the Company's rights to continue to market its services to AOL subscribers on a non-exclusive basis, but with significant marketing rights, would continue until June 30, 2003. AOL did not exercise its right as to 2000 and, accordingly, the exclusivity period for long distance will continue through at least June 2001 and the Company will be obliged to make fixed quarterly payments during the year ending June 30, 2001 of at least \$15.0 million (\$18.0 million in the last two quarters of 2000 before a \$1 million credit from AOL in the third quarter) to AOL. AOL did elect to terminate the Company's exclusive right to offer wireless services to AOL subscribers, but the Company's right to offer wireless services will continue on a non-exclusive basis. The Company plans to continue to market its services to AOL subscribers, and also plans, as discussed above, to increase its efforts to expand its base of long distance and local bundled customers.

Cost of Sales

Cost of sales decreased by 14.3% to \$72.5 million in the quarter ended September 30, 2000 from \$84.6 million in the quarter ended September 30, 1999, and as a percentage of sales, decreased to 59.8% as compared to 60.4% for the same quarter last year. The decreases were mainly due to a decrease in network costs as a result of exiting of the international wholesale business, a lower number of long distance customers, a reduction in local access charges, and a reduction in primary interexchange carrier charges ("PICC"). In addition, partition costs and billing costs were lower. The decrease in cost of sales was offset by an increase in bad debt expense and additional cost of sales relating to the growth of the local business and the cost of sales of Access One since the date of merger. The Company provided \$3.7 million more in bad debt expense during the quarter ended September 30, 2000 over the same quarter last year. This increase is due to the provision for certain aged receivables that are now deemed not collectible, and the bad debt expense from Access One since the date of merger. The Company expects bad debt expense to be flat for the fourth quarter of 2000 and to decrease for 2001.

Gross Profit

Gross profit increased to 40.2% of sales in the quarter ended September 30, 2000 from 39.6% in the quarter ended September 30, 1999. The increase in the gross profit percentage was primarily due to lower network, partition and billing costs offset by additional provisions for bad debt and increased cost associated with the growing local business, as noted above. Due to the growth of local bundled service revenue as a percentage of total revenue, the early stage of development of the Company's local service initiative, fluctuations in bad debt expense, as well as the intensification of price competition for the Company's products, the Company may not continue to experience an upward trend in gross profits in the future.

General and Administrative Expenses

General and administrative expenses increased by 70.8% to \$18.1 million in the quarter ended September 30, 2000 from \$10.6 million in the quarter ended September 30, 1999. As a percentage of sales, general and administrative expenses increased to 14.9% for the quarter ended September 30, 2000 from 7.6% for the quarter ended September 30, 1999. The increase was due primarily to increased costs associated with additional personnel hired to support the Company's growth in the local services business and the additional sales, provisioning and customer service support for the local customers. The general and administrative expenses of Access One are also included since the date of merger.

Promotional, Marketing and Advertising Expenses

During the quarter ended September 30, 2000, the Company incurred \$57.8 million in promotional, marketing and advertising expenses as compared to \$27.7 million in the quarter ended September 30, 1999. This represents an increase of 108.7% over the same period last year, and relates to the Company's efforts to expand its long distance and local bundled customer base as well as higher promotional costs and an increase in fixed payments

TALK.COM INC. AND SUBSIDIARIES

to AOL and the addition of Access One marketing and promotional expenses since the date of merger. The Company sold over 185,000 lines in the third quarter of 2000 that are expected to be billed in the fourth quarter of 2000. The Company expects to continue to incur marketing and promotional expenses as it implements its plans noted above to aggressively pursue local subscribers and line growth, particularly non-AOL customers. However, fourth quarter 2000 expenses are expected to be lower than in the third quarter 2000. Fixed payments to AOL have increased by \$3.0 million for both the third and fourth quarters of 2000 in connection with AOL's agreement to provide certain additional marketing in the last five months of 2000. After taking into account a third quarter credit from AOL, fixed payments to AOL in the third quarter of 2000 were \$17.0 and will be \$18.0 million for the fourth quarter of 2000.

Depreciation and Amortization

Depreciation and amortization for the quarter ended September 30, 2000 was \$6.3 million, an increase of \$4.8 million compared to \$1.5 million for the same period in 1999. This increase is due primarily to the amortization of the goodwill recorded upon the Access One acquisition (\$3.7 million of amortization for the third quarter of 2000), and also reflects the continued purchase of property and equipment to support the Company's ongoing growth, particularly with investment in a state-of-the-art billing, provisioning and customer service system platform, along with additional property, equipment and intangibles that were acquired by the Company in the Access One merger. The excess of the purchase price over the fair value of the net assets acquired in the Access One acquisition was approximately \$224.6 million and has been recorded as goodwill, which is being amortized on a straight-line basis over ten years.

Interest Income (Expense), net

Net interest expense was \$105,000 for the quarter ended September 30, 2000 as compared to net interest expense of \$624,000 for the quarter ended September 30, 1999. This represents a decrease of \$519,000 from the third quarter of last year due primarily to the higher level of cash and cash equivalents and lower debt levels in the 2000 period. Net interest income consists primarily of interest income earned on cash and cash equivalents offset by interest expense related to the Company's convertible debt and interest expense incurred by Access One since the date of the merger.

Other Expense, net

Net other expense was \$1.5 million for the quarter ended September 30, 2000 as compared to \$309,000 for the quarter ended September 30, 1999. The increase is due primarily to a \$1 million increase in the reserve on a note receivable.

Provision for Income Taxes

During the quarter ended September 30, 2000, due to an expected loss for this fiscal year, the Company recorded an income tax benefit of \$250,000 that represents a reversal of the provision recorded in the quarter ended March 31, 2000. In the quarter ended March 31, 2000, the Company recorded the provision relating to the expected payment of federal income taxes on alternative minimum taxable income for the fiscal year.

Extraordinary Gain

During the quarter ended September 30, 1999 the Company recorded an extraordinary gain of \$2.2 million from the acquisition of the Company's convertible debt at a discount from its aggregate principal amount.

NINE MONTHS ENDED SEPTEMBER 30, 2000 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1999

Sales

Sales increased by 12.3% to \$413.1 million for the nine months ended September 30, 2000 from \$367.7 million for the nine months ended September 30, 1999. This increase was primarily a result of an increase in the number of long distance customers, growth in new local customers, addition of Access One

revenues since the date of merger, and sales from the international wholesale business. The Company exited the international wholesale business in the third quarter, because of the low gross profit margins associated therewith. The increase in sales was partially

TALK.COM INC. AND SUBSIDIARIES

offset by a decrease in the Company's other sales, as the Company has continued to focus primarily on developing its long distance and local bundled customer base. The addition of new marketing partners has contributed to the growth in sales for the nine months ended September 30, 2000 compared to the same period for 1999.

As discussed above in the third quarter discussion, during the second quarter of 2000, there was a significant reduction in the principal marketing opportunity provided to the Company by AOL, which resulted in a decline in gross additions of new customers. In addition, the Company instituted new collection procedures in the first quarter of 2000, which the Company believes contributed to customer terminations during the introduction period of the new procedures at a rate greater than the Company's historical churn experience. With the reduction in long distance sales from the interruption of its primary AOL marketing channel, increased churn, the exit from the international wholesale business and the decline in other sales, the Company experienced a reduction in total sales for the third quarter ended September 30, 2000 from total sales of \$135.8 million in the second quarter of 2000. While the Company believes it offers competitively priced services, sales could be adversely affected by the intense competition in this industry. In addition, the Company's ability to provision long distance and local bundled services directly affects sales. Growth in the Company's sales of local services will also be affected by the Company's ability to continue to expand its offerings of such services to new states and to continue to build share in existing markets.

A significant percentage of the Company's revenues in the nine months ended September 30, 2000 and 1999 were derived from long distance telecommunications services provided to customers who were obtained under the AOL agreement and, as discussed above in the third quarter discussion, a significant decline in its AOL subscribers that is not offset by growth in other subscribers could have a significant effect on the Company's results of operations and cash flow.

Cost of Sales

Cost of sales increased by 9.4% to \$252.7 million in the nine months ended September 30, 2000 from \$231.0 million in the nine months ended September 30, 1999. This increase was due to the overall increase in sales for the nine months ended September 30, 2000 as compared to the same period last year and the addition of Access One cost of sales since the date of merger. As a percentage of sales, cost of sales for the nine months in 2000 decreased to 61.2% as compared to 62.8% for the same period last year. The decrease was primarily due to lower network usage costs for services on the Company's OBN network on a per minute basis and lower partition costs due to the decrease in other sales, offset by increased bad debt and by higher network costs associated with the international wholesale business, as noted above.

Gross Profit

Gross profit increased to 38.8% of sales in the nine months ended September 30, 2000 from 37.2% in the nine months ended September 30, 1999. The increase in the gross profit percentage was primarily due to lower network usage costs for OBN services on a per minute basis and lower partition costs due to the decrease in other sales, as noted above.

General and Administrative Expenses

General and administrative expenses increased by 53.8% to \$44.0 million in the nine months ended September 30, 2000 from \$28.6 million in the nine months ended September 30, 1999. As a percentage of sales, general and administrative expenses increased to 10.6% for the nine months ended September 30, 2000 from 7.8% for the nine months ended September 30, 1999. The increase was due primarily to costs associated with additional personnel hired to support the Company's continuing growth in the local services business and the addition of Access One general and administrative expenses since the date of the merger.

Promotional, Marketing, and Advertising Expenses

During the nine months ended September 30, 2000, the Company incurred \$126.9 million in promotional, marketing and advertising expenses as compared to

\$63.5 million in the nine months ended September 30, 1999. This represents an increase of 99.8% over the same period last year, and relates to the Company's efforts to expand

TALK.COM INC. AND SUBSIDIARIES

its long distance and local bundled customer base as well as higher promotional costs and an increase in fixed payments to AOL and the addition of Access One marketing and promotional expenses since the date of merger.

Depreciation and Amortization

Depreciation and amortization for the nine months ended September 30, 2000 was \$10.2 million, an increase of 131.8% compared to \$4.4 million for the same period in 1999. This increase is due primarily to the amortization of the goodwill recorded upon the Access One acquisition (\$3.7 million of amortization for the nine months ended September 30, 2000), and also reflects the continued purchase of property and equipment to support the Company's ongoing growth, particularly with investment in a state-of-the-art billing, provisioning and customer service system platform, along with additional property, equipment and intangibles that were acquired by the Company in the Access One merger. The excess of the purchase price over the fair value of the net assets acquired in the Access One acquisition was approximately \$224.6 million and has been recorded as goodwill, which is being amortized on a straight-line basis over ten years.

Significant Other Income

During the nine months ended September 30, 1999, the Company sold TSFL Holdings, Inc. (formerly Symetrics Industries, Inc.), resulting in a gain of \$2.7 million.

Interest Income (Expense), net

Net interest income was \$546,000 for the nine months ended September 30, 2000 as compared to net interest expense of \$592,000 for the nine months ended September 30, 1999. This is a decrease in interest expense of \$1.1 million from the nine months of last year due to higher levels of cash and cash equivalents and lower convertible debt levels in the 2000 period. Net interest income consists primarily of interest income earned on cash and cash equivalents offset by interest expense related to the Company's convertible debt and Access One notes payable since the date of the merger.

Other Expense, net

Net other expense was \$2.1 million for the nine months ended September 30, 2000 as compared to \$1.3 million for the nine months ended September 30, 1999. This represents a 61.5% increase compared to the nine months of last year. The increase is due primarily to a \$1.0 million increase in the reserve on a note receivable.

Provision for Income Taxes

Due to an expected loss for this fiscal year, no income tax provision was booked by the Company in the nine months ended September 30, 2000.

Extraordinary Gain

During the nine months ended September 30, 1999, the Company recorded an extraordinary gain of \$21.2 million from the acquisition of the Company's convertible debt at a discount from its aggregate principal amount.

LIQUIDITY AND CAPITAL RESOURCES

The Company had \$70.4 million of cash and cash equivalents as of September 30, 2000, and \$78.9 million as of December 31, 1999. The decrease in cash is primarily a result of \$29.9 million in capital expenditures for the purchase of property and equipment, related primarily to the expansion of the business discussed above, offset in part by cash generated from the Company's operations and the receipt of \$11.1 million in connection with the exercise of outstanding Common Stock rights prior to their expiration in February 2000.

Net cash provided by operating activities was \$11.6 million for the nine months ended September 30, 2000. Net cash provided by operating activities was \$5.1 million for the nine months ended September 30, 1999. For the nine months ended September 30, 2000, the major contributors to the net cash provided by

TALK.COM INC. AND SUBSIDIARIES

decrease in prepaid expenses and other current assets of \$6.9 million, an increase in accounts payable and accrued expenses of \$13.3 million and adjustments to net income for non-cash items of \$21.3 million. This was offset by a net loss of \$22.3 million, an increase in net trade accounts receivable of \$9.0 million and a decrease in other liabilities of \$3.0 million. For the nine months ended September 30, 1999, net cash provided by operating activities was mainly generated by net income of \$62.2 million and a net decrease in other assets of \$4.1, offset by a reduction in accounts payable and accrued expenses of \$24.4 million, an adjustment for the extraordinary gain of \$21.2 million recorded from the acquisition of the Company's convertible debt and an increase in accounts receivable, trade of \$12.8 million.

Net cash used in investing activities of \$33.7 million related primarily to the purchase of property, equipment and intangibles during the nine months ended September 30, 2000. For the nine months ended September 30, 1999, the net cash provided by investing activities was mainly from the sale of marketable securities of \$89.6 million.

The \$13.6 million net cash provided by financing activities for the nine months ended September 30, 2000 was received from the exercise of employee stock options and common stock purchase rights. For the nine months ended September 30, 1999, the net cash used in financing activities totaled \$49.6 million. On January 5, 1999, pursuant to an Investment Agreement between AOL and the Company, AOL made a significant equity investment in the Company, acquiring 4,121,372 shares of Common Stock for \$55.0 million in cash and the surrender of rights to acquire up to 5,076,016 shares of Common Stock pursuant to various warrants held by AOL. Additional financing activities generated \$25.0 million from the exercise of employee stock options. These activities in 1999 were offset by the acquisition of convertible debt of \$72.3 million, the repayment of margin account indebtedness of \$49.6 million and the acquisition of treasury stock of \$7.7 million.

Under the terms of the Investment Agreement with AOL, the Company agreed to reimburse AOL for losses AOL may incur on the sale of any of the 4,121,372 shares of Company common stock held by AOL during the period from June 1, 1999 through September 30, 2000. The reimbursement amount would be determined by multiplying the number of shares, if any, that AOL sells during the applicable period by the difference between the purchase price per share paid by AOL, or \$19 per share, and the price per share that AOL sells the shares for, if less than \$19 per share. The reimbursement amount may not exceed \$14 per share for 2,894,737 shares or \$11 per share for 1,226,635 shares. Accordingly, the maximum amount payable to AOL as reimbursement on the sale of AOL's shares would be approximately \$54.0 million plus AOL's reasonable expenses incurred in connection with the sale. The Company has the option of issuing a six-month 10% note payable to AOL to satisfy the reimbursement amount or other amounts payable on exercise of its first refusal rights. Assuming AOL were to sell all of its shares subject to the Company reimbursement obligation at the closing price of Company common stock as of November 10, 2000, the reimbursement amount would be approximately \$54.0 million. AOL also has the right, on termination of the Company's long distance exclusivity under its marketing agreement with AOL, to require the Company to repurchase warrants held by AOL to purchase 2,721,984 shares of Company common stock for \$36.3 million, which repurchase price can be paid in Common Stock or cash (provided that some portion of the repurchase price may be payable in a quarterly amortization, two-year promissory note of the Company if the repurchase price exceeds the then current valuation of the warrants being purchased). The Company has pledged the stock of its subsidiaries and has agreed to fund an escrow account of up to \$35.0 million from 50% of the proceeds of any debt financing, other than a bank, receivable or other asset based financing of up to \$50.0 million, to secure its obligations under the Investment Agreement with AOL. Mr. Daniel Borislow, former Chairman of the Board and Chief Executive Officer of the Company, has agreed to guarantee up to \$20.0 million of the Company's reimbursement obligations under the Investment Agreement with AOL. By an amendment dated as of August 2, 2000, the period during which AOL may exercise its rights to reimbursement for losses on the sale of stock, as described above, was extended from September 30, 2000 to September 20, 2001. Also as of August 2, 2000, the Company received a letter from AOL confirming that AOL does not intend to exercise such rights to reimbursement for shortfalls earlier than December 31, 2000.

The Company generally does not have a significant concentration of credit

risk with respect to net trade accounts receivable, due to the large number of end users comprising the Company's customer base and their dispersion across different geographic regions. The Company maintains reserves for potential credit losses and, to date, such losses have been within the Company's expectations.

At the time of the Company's acquisition of Access One, Access One and its subsidiaries had \$15.0 million of loans outstanding under an existing credit facility with MCG Finance Corporation. The loans under the credit facility were secured by a pledge of all of the assets of Access One and its subsidiaries. In addition, the Company

19

TALK.COM INC. AND SUBSIDIARIES

guaranteed the obligations of Access One and its subsidiaries under the credit facility. The \$15.0 million loan was repaid on October 20, 2000 when certain subsidiaries of the Company entered into a Credit Facility Agreement with MCG Finance Corporation, providing for a term loan of up to \$20.0 million and a line of credit facility permitting such subsidiaries to borrow up to an additional \$30.0 million. The effectiveness of the line of credit facility is subject, among other things, to the successful syndication of that facility, which is expected to occur in 2001. The Credit Facility Agreement subjects the Company and its subsidiaries to certain restrictions and covenants related to, among other things, liquidity, per-subscriber revenue, subscriber acquisition costs, leverage ratio and interest coverage ratio requirements. The credit facilities under the Credit Facility Agreement terminate on June 30, 2001, but can be extended at the Company's election up to June 30, 2005 for the term loan facility and up to June 30, 2003 for the line of credit facility. The principal of the term loan is required to be repaid in quarterly installments of \$1.25 million on the last calendar day of each fiscal quarter, commencing on September 30, 2001. The loans under the Credit Facility Agreement are secured by a pledge of all of the assets of the subsidiaries of the Company that are parties to that agreement. In addition, the Company has guaranteed the obligations of those subsidiaries under the Credit Facility Agreement and related documents; the Company's guarantee subjects the Company to certain restrictions and covenants, including a prohibition against the payment of dividends in respect of the Company's equity securities, except under certain limited circumstances. Upon its execution of the Credit Facility Agreement, the Company issued warrants for 300,000 shares of its common stock, which become exercisable, at \$4.36 per share, if the Company fails to exceed certain EBITDA thresholds for the fiscal quarters ended December 31, 2000 and March 31, 2001. The Company is also required to issue warrants exercisable for an additional 300,000 shares of common stock (exercisable immediately) on the date on which the line of credit facility is successfully syndicated (provided such date occurs prior to March 31, 2001). On October 20, 2000, the Company borrowed \$20.0 million under the term loan facility (approximately \$15.0 million was used to repay the Access One loans).

The Company does not, and has not historically, required significant amounts of working capital for its day-to-day operations. The Company believes that its current cash position and the cash flow expected to be generated from operations will be sufficient to fund its capital expenditures, working capital and other cash requirements, including marketing and promotional expenditures discussed above, for at least the next twelve months. The Company also believes, based on its existing cash and cash equivalents and its expectations as to future cash flow from operations, that, should AOL elect during the exercise period of January 1, 2001 through September 30, 2001 to sell its shares of the Company's common stock at a price below \$19 per share. The Company will have the ability to obtain the financing necessary to fund such portion of its reimbursement obligations under the AOL Investment Agreement as it does not fund from its cash on hand at such time. Should the Company seek to raise additional capital, however, there can be no assurance that, given current market conditions, the Company would be able to raise such additional capital on terms acceptable to the Company.

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

Certain of the statements contained herein may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are identified by the use of forward-looking words or phrases, including, but not limited to, "estimates," "expects," "expected," "anticipates," and "anticipated." These forward-looking statements are based on the Company's current expectations. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to have been correct. Forward-looking statements involve risks and uncertainties and the Company's actual results could differ materially from the Company's expectations. In addition to those factors discussed in the foregoing Management's Discussion and Analysis, important factors that could cause such actual results to differ materially include, among others, adverse developments in the Company's relationship with its marketing partners, increased price competition for long distance and local services, failure of the marketing of long distance and local services under its agreements with its various marketing partners and its direct

marketing channels, attrition in the number of end users, a failure of the Company to continue to successfully integrate the operations of Access One or difficulties in managing the larger combined companies, a failure of the Company's new local services and bundled local and long distance services initiative, failure of the Company to expand its offering of local and local bundled services to new states, failure of the Company to manage its growth and changes in government policy, regulation and enforcement. The Company undertakes no obligation to update its forward-looking statements.

TALK.COM INC. AND SUBSIDIARIES

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, the financial position of the Company is subject to a variety of risks, such as the collectibility of its accounts receivable and the recoverability of the carrying values of its long-term assets. The Company's long-term obligations consist primarily of its own convertible notes and credit facility. The Company does not presently enter into any transactions involving derivative financial instruments for risk management or other purposes due to the stability in interest rates in recent times and because management does not consider the potential impact of changes in interest rates to be material.

The Company's available cash balances are invested on a short-term basis (generally overnight) and, accordingly, are not subject to significant risks associated with changes in interest rates. Substantially all of the Company's cash flows are derived from its operations within the United States and the Company is not subject to market risk associated with changes in foreign exchange rates.

TALK.COM INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Rights of Equity Securities

On October 20, 2000, certain subsidiaries of the Company entered into a Credit Facility Agreement with MCG Finance Corporation. The Company's guarantee of such subsidiaries' obligations under the Credit Facility Agreement subjects the Company to certain restrictions and covenants, including a prohibition against the payment of dividends in respect of the Company's equity securities, except under certain limited circumstances.

Issuances of Securities

Upon its execution of a Credit Facility Agreement with MCG Finance Corporation (with its affiliated entities, collectively "MCG") on October 20, 2000, the Company issued warrants for 300,000 shares of its common stock to MCG, which warrants become exercisable at \$4.36 per share if the Company fails to exceed certain revenue thresholds for the fiscal quarters ended December 31, 2000 and March 31, 2001.

On August 9, 2000, the Company issued currently exercisable warrants to purchase 300,000 shares of its common stock to MCG in consideration of a consulting agreement and services provided by MCG thereunder to Access One Communications Corp. These warrants have an exercise price of \$4.73 and expire on August 8, 2007.

Each of the above issuances was made by the Company in reliance on Section 4(2) of the Securities Act of 1933.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

- | | |
|------|---|
| 10.1 | Employment Agreement between the Company and Thomas M. Walsh dated August 7, 2000. * |
| 10.2 | Indemnification Agreement between the Company Thomas M. Walsh dated August 7, 2000. * |
| 10.3 | Non-Qualified Stock Option Agreement between the Company and Thomas M. Walsh dated August 7, 2000. * |
| 10.4 | Credit Facility Agreement among Talk.com Holding Corp., Access One Communications Corp, certain of their direct and indirect subsidiaries and MCG Finance Corporation, dated as of October 20, 2000. ++ |
| 10.5 | Guaranty between Talk.com Inc. in favor of MCG Finance Corporation, dated as of October 20, 2000. |
| 27 | Financial Data Schedule |
| * | Management contract or compensatory plan or arrangement. |
| ++ | Confidential treatment has been requested for portions of this exhibit. |

TALK.COM INC. AND SUBSIDIARIES

(b) Reports on Form 8-K:

During the quarter ended September 30, 2000, the Company filed three Current Reports on Form 8-K reporting on the following:

The Current Report on Form 8-K, dated August 2, 2000, reported under Item 5. Other Events, an extension of the reimbursement obligation under the Investment Agreement with America Online, Inc.

The Current Report on Form 8-K, dated August 9, 2000, reported on Item 2. Acquisition or Disposition of Assets, that a wholly owned subsidiary of the Company merged with and into Access One Communications Corp., a New Jersey corporation ("Access One"), pursuant to the Agreement and Plan of Merger, dated as of March 24, 2000, between the Company and Access One.

The Current Report on Form 8-K, dated September 8, 2000, reported under Item 4. Changes in Registrant's Certifying Accountant the change in the Company's independent certified public accountants to PricewaterhouseCoopers LLP.

TALK.COM INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TALK.COM INC.

Date: November 14, 2000

By: /s/ Gabriel Battista

Gabriel Battista
Chief Executive Officer

Date: November 14, 2000

By: /s/ Edward B. Meyercord, III

Edward B. Meyercord, III
Chief Operating Officer and
Chief Financial Officer

Date: November 14, 2000

By: /s/ Janet C. Kirschner

Janet C. Kirschner
Controller

EX-10.1 OTHERDOC

2

0002.txt

EXHIBIT 10.1

Document is copied.

EXHIBIT 10.1

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made and entered into as of the 7th day of August, 2000 among Talk.com Inc., a Delaware corporation ("Talk.com") and Talk.com Holding Corp., a Pennsylvania corporation and a wholly owned subsidiary of Talk.com Inc. (the "Company") and Thomas M. Walsh ("Employee").

WHEREAS, Talk.com and Company desires to employ Employee as Vice President-Finance of Talk.com and the Company and in certain other capacities, and Employee desires to be employed by Talk.com and Company; and

WHEREAS, Talk.com and Company and Employee desire to enter into this Agreement that sets forth the terms and conditions of said employment.

NOW THEREFORE, in consideration of the foregoing, the mutual covenants set forth herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the undersigned hereby agree as follows:

1. EMPLOYMENT. Company agrees to employ Employee, and Employee accepts such employment and agrees to serve Company, on the terms and conditions set forth herein. Except as otherwise specifically provided herein, Employee's employment shall be subject to the employment policies and practices of Company in effect from time to time during the term of Employee's employment hereunder (including, without limitation, its practices as to tax reporting and withholding).

2. TERM OF AGREEMENT. The term of Employee's employment hereunder shall commence on September 4, 2000 (the "Commencement Date") and shall continue in effect for a period of five years thereafter, except as hereinafter provided (the "Term"). Employee agrees to and shall present herself at the offices of Company in New Hope, Pennsylvania prepared to commence performing her duties hereunder on or before the Commencement Date.

3. POSITIONS AND DUTIES.

3.1 OFFICER POSITIONS. Except as may otherwise be agreed upon between Company and Employee, Employee shall perform such duties and have such responsibilities as Vice President-Finance and such other duties and responsibilities consistent with the foregoing duties and responsibilities as may be reasonably assigned or delegated to him from time to time by Company's Chief Executive Officer or Company's Board of Directors (the "Board"), including, without limitation, service as an employee, officer or director of affiliates (as that term is defined in Rule 405 under the Securities Act of 1933, as amended (the "Act")) (hereinafter, "Affiliates") of Company, without

additional compensation. References in this Agreement to Employee's employment with Company shall be deemed to refer to employment with Company and/or, as the case may be, an Affiliate, as the context requires. Employee shall perform his duties and responsibilities to the best of his abilities hereunder in a diligent, trustworthy, businesslike and efficient manner. Employee shall devote substantially all of his working time and efforts to the business and affairs of Company; provided, however, that nothing in this Agreement shall preclude Employee from (a) engaging in charitable activities and community affairs, and (b) managing his personal investments and affairs (subject to the limitations in Section 10 hereof).

4. COMPENSATION AND RELATED MATTERS.

4.1 BASE SALARY. During the Term, Company shall pay to Employee a base salary ("Base Salary") at the rate of One Hundred Sixty Thousand Dollars (\$160,000) per year, which Base Salary shall be paid to Employee in accordance with Company's usual and customary payroll practices.

4.2 BENEFIT PLANS AND ARRANGEMENTS. Employee shall be entitled to participate in and to receive benefits under Company's employee benefit plans and arrangements (including, but not limited to, bonus plans) as are made available to the Company's senior executive officers during the Term, which employee benefit plans and arrangements may be altered from time to time at the discretion of the Board (the "Benefits"). Employee acknowledges and agrees that bonuses, annual or otherwise, are performance based and discretionary with the Board of Directors or a Committee thereof.

4.3 PERQUISITES. During the Term, Employee shall be entitled to receive fringe benefits as are made available to Company's senior executive officers.

4.4 EXPENSES. Company shall promptly reimburse Employee for all out-of-pocket expenses related to Company's business that are actually paid or incurred by him in the performance of his services under this Agreement and that are incurred, reported and documented in accordance with Company's policies, including but not limited to continuing education with respect to accounting as required by applicable rules. In addition, during the Term, Company will provide Employee with an automobile or an automobile allowance, as Company shall determine, and if the Company determines to provide Employee with an automobile, Company shall keep such automobile fully insured in accordance with Company's practices for similarly situated employees.

4.5 STOCK OPTIONS.

(a) GRANT OF OPTIONS. Effective on the date hereof, Employee shall be granted an award of an option to purchase 160,000 shares of the Common Stock (the "Option") in accordance with the stock option agreement in substantially in the form thereof attached hereto as Exhibit A. The Option shall have an exercise price equal to \$4-5/8, which is equal to the fair market value (as defined below) of the Common Stock on the date hereof. The Option expires on the tenth anniversary of the date hereof and

2

shall vest and become exercisable, subject to accelerated vesting in the event of a Change in Control (defined as provided below) of Company in installments, as follows: (i) options with respect to 53,334 shares of Common Stock shall vest and become exercisable on the first anniversary of the date hereof; (ii) options with respect to 53,333 shares of Common Stock shall vest and become exercisable on the second anniversary of the date hereof and (iii) options with respect to 53,333 shares of Common Stock shall vest and become exercisable on the third anniversary of the date hereof. In the event of a Change in Control of Company, all of the options issued under the Option which are not then vested and exercisable shall immediately become vested and exercisable. The fair market value of Common Stock for purposes of this Agreement shall mean the last reported sale price of a share of the Common Stock on the Nasdaq National Market System preceding the date in question or if no sale took place on such day, such last reported sale price on the then next preceding date on which such sale took place. For the purposes of this Agreement, a "Change of Control" shall be deemed to have occurred if:

- (i) any Person (as defined in Section 3(a)(9) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than the Company, becomes the Beneficial Owner (as defined in Rule 13d-3 under the Exchange Act; provided, that a Person shall be deemed to be the Beneficial Owner of all shares that any such Person has the right to acquire pursuant to any agreement or arrangement or upon exercise of conversion rights, warrants, options or otherwise, without regard to the 60 day period referred to in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company or any Significant Subsidiary (as defined below) representing 50% or more of the combined voting power of the Company's, or such

subsidiary's, as the case may be, then outstanding securities;

- (ii) during any period of two years, individuals who at the beginning of such period constitute the Board and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clauses (i), (iii), or (iv) of this Section 2(a)) whose election by the Board or nomination for election by stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the two-year period or whose election or nomination for election was previously so approved, but excluding for this purpose any such new director whose initial assumption of office occurs as a result of either an actual or threatened election contest or other actual or threatened solicitation of proxies or consents by or on behalf of an individual, corporation,

3

partnership, group, association or other entity other than the Board, cease for any reason to constitute at least a majority of the Board of either or the Company or a Significant Subsidiary;

- (iii) the consummation of a merger or consolidation of the Company or any subsidiary of the Company owning directly or indirectly all or substantially all of the consolidated assets of the Company (a "Significant Subsidiary") with any other entity, other than a merger or consolidation which would result in the voting securities of the Company or a Significant Subsidiary outstanding immediately prior thereto continuing to represent more than fifty percent (50%) of the combined voting power of the surviving or resulting entity outstanding immediately after such merger or consolidation;
- (v) (iv) the shareholders of the Company approve a plan or agreement for the sale or disposition of fifty percent (50%) or more of the consolidated assets of the Company in which case the Board shall determine the effective date of the Change of Control resulting therefrom; and
- (vi) any other event occurs which the Board determines, in its discretion, would materially alter, the structure of the Company or its ownership.

(b) REGISTRATION STATEMENT. Company will file with the Securities and Exchange Commission and any applicable state securities regulatory authorities a Registration Statement on the applicable form to register the resale of the Award and Form S-8 (or if unavailable, a registration statement on Form S-3) to register the shares issuable upon exercise of the Option under the Act and any applicable state securities or "Blue Sky" laws as soon as practicable after the date hereof. Notwithstanding the foregoing, Company shall be entitled to postpone for a reasonable period of time the filing or the effectiveness of such registration statement if the Board shall determine in good faith that such filing or effectiveness would be materially detrimental to the Company's business interests.

5. TERMINATION. The Term of Employee's employment hereunder may be terminated under the following circumstances:

4

5.1 DEATH. The Term of Employee's employment hereunder shall terminate upon his death.

5.2 DISABILITY. If Employee becomes physically or mentally disabled during the term hereof so that he is unable to perform services required of him pursuant to this Agreement for an aggregate of six (6) months in any twelve (12) month period (a "Disability"), Company, at its option, may terminate Employee's employment hereunder.

5.3 CAUSE. Upon written notice, Company may terminate Employee's employment hereunder for Cause (as defined below). For purposes of this Agreement, Company shall have "Cause" to terminate Employee's employment hereunder upon (a) a material breach by Employee of any material provision of this Agreement, (b) willful misconduct by Employee in connection with misappropriating any funds or property of Company, (c) attempting to obtain any personal profit from any transaction in which Employee has an interest that is adverse to the interests of Company without prior written disclosure thereof to the Board or (d) Employee's gross neglect in the performance of the duties required to be performed by Employee under this Agreement.

5.4 BY EMPLOYEE. Employee may terminate his employment hereunder:

(a) Upon sixty (60) days' prior written notice to Company, provided that, upon the giving of such notice by Employee, Company may establish an earlier date for such termination under this Section 5.4 (a).

(b) For Good Reason (as defined below) immediately and with notice to Company. "Good Reason" for termination by Employee shall include, but is not limited to, the following:

- (i) Material breach of any provision of this Agreement by Company, which breach shall not have been cured by Company within thirty (30) days of receipt of written notice of said material breach;
- (ii) Failure by Company to maintain Employee in a position commensurate with that referred to in Section 3 of this Agreement; or
- (iii) The assignment to Employee of any duties inconsistent with Employee's position, authority, duties or responsibilities as contemplated by Section 3 hereof or any other action by Company that results in a diminution of such position, authority, duties or responsibilities.

5.5 WITHOUT CAUSE. Company may otherwise terminate the Term of Employee's employment at any time upon written notice to Employee.

5

6. COMPENSATION IN THE EVENT OF TERMINATION. In the event that Employee's employment hereunder terminates prior to the end of the Term, Company shall make payments to Employee as set forth below:

6.1 BY EMPLOYEE FOR GOOD REASON; BY COMPANY WITHOUT CAUSE. In the event that Employee's employment hereunder is terminated by Company without Cause or by Employee for Good Reason, then the Company shall (a) pay to Employee all amounts due to Employee pursuant to any bonus that was due to Employee as of the date of such termination, pursuant to the terms of such bonus (a "Due Bonus"), (b) continue to pay to Employee the Base Salary and Benefits to which Employee would be entitled hereunder in the manner provided for herein for the period of time ending on the earlier of the date when the Term would otherwise have expired in accordance with Section 2 hereof and the second anniversary of the date of such termination, (c) reimburse Employee for expenses that may have been incurred, but which have not been paid as of the date of termination, subject to the requirements of Section 4.4 hereof and (d) one hundred percent (100%) of the outstanding stock options granted to the Employee that are unvested shall immediately vest and become exercisable.

6.2 BY COMPANY FOR CAUSE; BY EMPLOYEE WITHOUT GOOD REASON. In the event that Company shall terminate Employee's employment hereunder for Cause pursuant to Section 5.3 hereof or Employee shall terminate his employment hereunder

without Good Reason, all compensation and Benefits, as specified in Section 4 of this Agreement, theretofore payable or provided to Employee shall cease to be payable or provided, except for any Due Bonus and any Benefits that may have been due and payable but that have not been paid as of the date of termination and reimbursement of expenses that may have been incurred, but which have not been paid as of the date of termination, subject to the requirements of Section 4.4 hereof.

6.3 DEATH. In the event of Employee's death, Company shall not be obligated to pay Employee or his estate or beneficiaries any compensation except for (a) any Due Bonus or any Benefits that may have been earned and are due and payable as of the date of death, but which have not been paid as of such date, (b) reimbursement of expenses that may have been incurred, but which have not been paid as of the date of death, subject to the requirements of Section 4.4 hereof, and (c) all outstanding stock options granted to Employee that are unvested shall immediately vest and become exercisable and Employee's estate or beneficiaries, as the case may be, shall have the right to exercise any of such stock options during the period commencing on the date of death and ending on the second anniversary of the date of such termination or for the remainder of the period set forth in the option agreement applicable to the option in question (the "Exercise Period"), if less.

6.4 DISABILITY. In the event of Employee's Disability, Company shall not be obligated to pay Employee or his estate or beneficiaries any additional compensation except for: (a) any Due Bonus and Benefits that may have been earned and are due and payable as of the date of such Disability, but which have not been paid as of such date, and (b) reimbursement for expenses that may have been incurred but which have not been

6

paid as of the date of Disability, subject to the requirements of Section 4.4 hereof. Upon termination due to Disability, fifty percent (50%) of the outstanding stock options granted to Employee that are unvested shall immediately vest and become exercisable and Employee or his estate or beneficiaries, as the case may be, shall have the right to exercise any of such stock options during the period commencing on the date of Disability and ending on the second anniversary of the date of the Disability or for the remainder of Exercise Period, if less.

6.5 NO MITIGATION. In the event of any termination of employment under Section 5 hereof, Employee shall be under no obligation to seek other employment; provided, however, that to the extent that Employee does obtain other employment subsequent to the termination of Employee's employment hereunder, the obligations of Company to pay Benefits (which is defined in Section 4.2 of this Agreement and the term "Benefits" does not include Options granted pursuant to Section 4.5 of this Agreement for purposes of this Section 6.5) under this Agreement from and after the date of commencement of such other employment shall terminate.

7. UNAUTHORIZED DISCLOSURE. Employee shall not, without the prior written consent of Company, disclose or use in any way, either during Employee's employment with Company or thereafter, except as required in the course of such employment, any confidential business or technical information or trade secret acquired in the course of such employment, whether or not conceived of or prepared by him, which is related to any service or business of Company or any Affiliate; provided, however, that the foregoing shall not apply to (a) information that is not unique to the Company or that is generally known to the industry or the public other than as a result of Employee's breach of this covenant, (b) information known to Employee other than from information provided by Company or (c) information that Employee is required to disclose to, or by, any governmental or judicial authority; provided, however, if Employee should be required in the course of judicial or other governmental proceedings to disclose any information, Employee shall give Company prompt written notice thereof so that Company may seek an appropriate protective order and/or waive in writing compliance with the confidentiality provisions of this Agreement. If, in the absence of a protective order or the receipt of a waiver by Company, Employee is compelled to disclose information to, or pursuant to the requirements of, a court or other governmental authority, Employee may disclose such information to such court or other governmental authority without liability to any other party

hereto.

8. TANGIBLE ITEMS. All files, records, documents, manuals, books, forms, reports, memoranda, studies, data, calculations, recordings and correspondence, in whatever form they may exist, and all copies, abstracts and summaries of the foregoing and all physical items related to the business of Company and its affiliates, other than merely personal items, whether of a public nature or not, and whether prepared by Employee or not, and which are received by Employee from, or on behalf of Company or an Affiliate in the course of his employment hereunder are and shall remain the exclusive property of Company and any such Affiliate and shall not be removed from the premises of the Company or such Affiliate, as the case may be, except as required in the course of

7

Employee's employment hereunder, without the prior written consent of the Company's Chief Executive Officer or the Board, and the same shall be promptly returned by Employee upon the termination of Employee's employment with Company or at any time prior thereto upon the request of the Company's Chief Executive Officer or the Board.

9. INVENTIONS AND PATENTS. Employee agrees that all inventions, innovations, improvements, developments, methods, designs, analyses, drawings, reports, and all similar or related information that relates to Company's actual or anticipated business, research and development or existing or future products or services and that are conceived, developed or made by or at the direction of Employee while Employee is employed by Company will be owned by Company. Employee also agrees to promptly perform, at the expense of Company, all reasonable actions (whether before, during or after the Term) necessary to establish and confirm such ownership.

10. CERTAIN RESTRICTIVE COVENANTS. During the Term, and for a period ending twelve (12) months after the earlier of Employee's termination of employment hereunder, Employee agrees that he will not act, either directly or indirectly, as a partner, officer, director, substantial stockholder (an equity interest of 5% or more) or employee of, or render advisory or other services for, or in connection with, or become interested in, or make any substantial financial investment in any firm, corporation, business entity or business enterprise that is a provider of telecommunication services that competes with Employer (each, a "Competitor"), except with the express written consent of the Board which shall not be unreasonably withheld. Employee further agrees that in the event of the termination of his employment under Section 5 hereof, for a period of twelve (12) months thereafter, she will not, directly or indirectly, employ, offer to employ, or actively interfere with the relationship of Company or an Affiliate with, any employee of Company or any employee of any Affiliate.

8

11. EMPLOYEE REPRESENTATIONS AND COVENANTS. Employee hereby represents, warrants and covenants to Company that (a) the execution, delivery and performance of this Agreement by Employee does not and will not conflict with, breach, violate or cause a default under any employment, non-competition or confidentiality contract or agreement, instrument, order, judgment or decree to which Employee is a party or by which he is bound; (b) Employee, in performing this Agreement and the duties of Employee's employment with Company, will not disclose or utilize any trade secrets of a former employer, unless Employee has first obtained express written authorization from any such former employer for their disclosure or use; (c) Employee has not brought, and will not bring to Company, any documents, records, information or other materials of a former employer that are not generally available to the public, unless Employee has first obtained express written authorization from any such former employer for their possession and use; and (d) upon the execution and delivery of this Agreement by Company, this Agreement shall be the valid and binding obligation of Employee, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency and similar laws affecting the rights of creditors generally.

12. COMPANY REPRESENTATIONS. Company represents and warrants (a) that it is duly authorized and empowered to enter into this Agreement, (b) the execution, delivery and performance of this Agreement by Company does not and will not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which Company is a party or by which it is bound, and (c) upon the execution and delivery of this Agreement by Employee, this Agreement shall be the valid and binding obligation of Company, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency and similar laws affecting the rights of creditor generally.

13. INDEMNIFICATION. Prior to the Commencement Date, Company and Employee shall enter into an indemnification agreement in a form mutually acceptable to Company and Employee and containing terms no less favorable to Employee than those contained in any indemnification or similar agreement currently in effect between Company and any of its officers.

14. REMEDIES. Employee acknowledges that the restrictions and agreements contained in this Agreement are reasonable and necessary to protect the legitimate interests of Company, and that any violation of this Agreement will cause substantial and irreparable injury to Company that would not be quantifiable and for which no adequate remedy would exist at law and agrees that injunctive relief, in addition to all other remedies, shall be available therefor.

15. EFFECT OF AGREEMENT ON OTHER BENEFITS. Except as specifically provided in this Agreement, the existence of this Agreement shall not be interpreted to preclude, prohibit or restrict Employee's participation in any other employee benefit plan or other plans or programs provided to officers, directors or employees of Company.

9

16. RIGHTS OF EMPLOYEE'S ESTATE. If Employee dies prior to the payment of all amounts due and owing to him under the terms of this Agreement, such amounts shall be paid to such beneficiary or beneficiaries as Employee may have last designated in writing filed with the Secretary of Company or, if Employee has made no beneficiary designation, to Employee's estate. Such designated beneficiary or the executor of Employee's estate, as the case may be, may exercise all of Employee's rights hereunder. If any beneficiary designated by Employee shall predecease Employee, the designation of such beneficiary shall be deemed revoked, and any amounts which would have been payable to such beneficiary shall be paid to Employee's estate. If any designated beneficiary survives Employee, but dies before payment of all amounts due hereunder, such payments shall, unless Employee has designated otherwise, be made to such beneficiary's estate. In the event of Employee's death or judicial determination of his incompetence, reference in this Agreement to Employee shall be deemed where appropriate, to refer to his beneficiary, estate or other legal representative.

17. SEVERABILITY. It is the intent and understanding of the parties hereto that if, in any action before any court or other tribunal of competent jurisdiction legally empowered to enforce this Agreement, any term, restriction, covenant, or promise is held to be unenforceable as a result of being unreasonable or for any other reason, then such term, restriction, covenant, or promise shall not thereby be terminated, but, that it shall be deemed modified to the extent necessary to make it enforceable by such court or other tribunal and, if it cannot be so modified, that it shall be deemed amended to delete therefrom such provision or portion adjudicated to be invalid or unenforceable, and this agreement shall be deemed to be in full force and effect as so modified and such modification or amendment in any event shall apply only with respect to the operation of this Agreement in the particular jurisdiction in which such adjudication is made.

18. NOTICES. Any notices or demands given in connection herewith shall be in writing and deemed given when (a) personally delivered, (b) sent by facsimile transmission to a number provided in writing by the addressee and a confirmation of the transmission is received by the sender or (c) two (2) days after being deposited for delivery with a recognized overnight courier, such as Federal Express, and addressed or sent, as the case may be, to the address or

facsimile number set forth below or to such other address or facsimile number as such party may in writing designate:

If to Employee: Thomas M. Walsh
313 Heatherfield Drive
Souderton, PA 18964

If to Company: Talk.com Inc.
12020 Sunrise Valley Drive
Suite 250
Reston, VA 20190
Attn: General Counsel
Fax No.: (703) 391-7525

10

Either party may change its address for notices by written notice to the other party in accordance with this Section 17.

19. WAIVER. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in a writing executed by Employee and Company. No waiver by any party hereto at any time of any breach by another party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

20. GOVERNING LAW. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of Pennsylvania relating to contracts made and to be performed entirely therein.

21. HEADINGS. The headings in this Agreement are inserted for convenience only and shall have no significance in the interpretation of this Agreement.

22. SUCCESSORS. Company may not assign any of its rights or obligations under this Agreement hereunder. Employee may assign his rights, but not his obligations, hereunder and all of Employee's rights hereunder shall inure to the benefit of his estate, personal representatives, designees or other legal representatives. All of the rights of Company hereunder shall inure to the benefit of, and be enforceable by the successors of Company. Any person, firm or corporation succeeding to the business of Company by merger, purchase, consolidation or otherwise shall be deemed to have assumed the obligations of Company hereunder; provided, however, that Company shall, notwithstanding such assumption by a successor, remain primarily liable and responsible for the fulfillment of its obligations under this Agreement.

23. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

24. CERTAIN WORDS. As used in this Agreement, the words "herein," "hereunder," "hereof" and similar words shall be deemed to refer to this Agreement in its entirety, and not to any particular provision of this Agreement unless the context clearly requires otherwise.

11

IN WITNESS WHEREOF, each of the parties hereto has executed this Agreement as of the day and year first written above.

Talk.com Inc.

Talk.com Holding Corp.

By:

By:

Name:

Name:

Title:

Title:

Thomas M. Walsh

12

EX-10.2 OTHERDOC
3
0003.txt
EXHIBIT 10.2

Document is copied.

EXHIBIT 10.2

TALK.COM INC.

INDEMNIFICATION AGREEMENT

This Indemnification Agreement ("Agreement") is made as of August 7, 2000, by and between Talk.com Inc., a Delaware corporation (the "Company"), and Thomas M. Walsh ("Indemnitee").

WHEREAS, pursuant to that certain employment agreement between the Company, Talk.com Holding Corp. and Indemnitee dated August 7, 2000 (the "Employment Agreement") Indemnitee will commence service, on or prior to September 4, 2000 as Vice President-Finance of the Company and will perform a valuable service in such capacity for the Company; and

WHEREAS, the Company desires to attract and retain the services of highly qualified individuals, such as Indemnitee, to serve the Company and, in order to induce Indemnitee to enter into the Employment Agreement, the Company agreed to enter into an agreement with Indemnitee providing for the indemnification of Indemnitee as provided herein.

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants set forth herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the undersigned hereby agree as follows:

1. Indemnification.

(a) Indemnification of Indemnitee. The Company shall indemnify and hold harmless Indemnitee to the fullest extent permitted by law if Indemnitee was or is or becomes a party to, or witness or other participant in, or is threatened to be made a party to, or witness or other participant in, any threatened, pending or completed action, suit, proceeding or alternative dispute resolution mechanism, or any hearing, inquiry or investigation that Indemnitee in good faith believes might lead to the institution of any such action, suit, proceeding or alternative dispute resolution mechanism, whether civil, criminal, administrative, investigative or other (collectively, hereinafter a "Claim") by reason of, or arising in whole or in part out of, any event or occurrence related to the fact that Indemnitee is or was a director, officer, manager, employee, agent, representative or fiduciary of the Company, a subsidiary of the Company (a "Subsidiary") or an affiliate (as defined in Rule 405 under the Securities Act of 1933, as amended) of the Company (an "Affiliate"), or is or was serving at the request of the Company or any Subsidiary or Affiliate as a director, officer, manager, employee, agent, representative or fiduciary of another corporation, limited liability company, partnership, joint venture, employee benefit plan, trust or other entity or enterprise (collectively, an "Other Entity"), or by reason of any action or inaction on the part of Indemnitee while serving in any of such capacities, whether or not the basis of the Claim is an alleged action in an official capacity as a director, officer, manager, employee, agent, representative or fiduciary of the Company, or any Subsidiary, Affiliate or Other Entity (any of the foregoing capacities referenced in this Section 1(a), an "Indemnified Capacity"), against any and all costs, expenses and other amounts actually and reasonably incurred and/or, as the case may be, paid (including, without limitation, attorneys' fees and all other costs, expenses and obligations actually and reasonably incurred in connection with

investigating, defending, being a witness in, or otherwise participating in (including on appeal), or preparing to defend, any Claim), and judgments, fines, penalties and amounts paid in connection with the settlement of any Claim and any federal, state, local or foreign taxes imposed on the Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement, including all interest, assessments and other charges paid or payable by the Indemnitee in connection with or in respect of such costs, expenses and other amounts (collectively, hereinafter, the "Expenses"). Without limiting the rights of Indemnitee under Section 2(a) below, the payment of Expenses actually paid by Employee shall be made by the Company as soon as practicable, but in any event no later than thirty (30) days after written demand by Indemnitee therefor is

presented to the Company. Any event giving rise to the right of Indemnitee to be indemnified hereinafter is referred to herein as an "Indemnifiable Event."

(b) Reviewing Party. Notwithstanding the foregoing, (i) the obligations of the Company under Section 1(a) hereof shall be subject to the condition that the Reviewing Party (as defined in Section 10(e) hereof) shall not have determined (in a written opinion, in any case in which the Independent Legal Counsel (as defined in Section 10(d) hereof) is involved) that Indemnitee would not be permitted to be indemnified under applicable law, and (ii) the obligation of the Company to make an advance payment of Expenses to Indemnitee pursuant to Section 2(a) hereof (an "Expense Advance") shall be subject to the condition that, if, when and to the extent that the Reviewing Party determines that Indemnitee would not be permitted to be so indemnified under applicable law, the Company shall be entitled to be reimbursed by Indemnitee (who hereby agrees to so reimburse the Company) for all such amounts theretofore paid; provided, however, that if Indemnitee has commenced or thereafter commences legal proceedings in a court of competent jurisdiction to secure a determination that Indemnitee could be indemnified under applicable law, any determination made by the Reviewing Party that Indemnitee would not be permitted to be indemnified under applicable law shall not be binding and Indemnitee shall not be required to reimburse the Company for any Expense Advance until a final judicial determination is made with respect thereto (as to which all rights of appeal therefrom have been exhausted or lapsed). Indemnitee's obligation to reimburse the Company for any Expense Advance shall be unsecured and no interest shall be charged thereon. If there has not been a Change in Control (as defined in Section 10(c) hereof), the Reviewing Party shall be selected by members of the Board of Directors who are not or were not, as the case may be, a party or parties, as the case may be, to the Claim in respect of which indemnification is sought, and if there has been a Change in Control (other than a Change in Control which has been approved by a majority of the Company's Board of Directors who were directors immediately prior to such Change in Control), the Reviewing Party shall be the Independent Legal Counsel. If, within thirty (30) days after the Company's receipt of written notice from Indemnitee demanding such indemnification (the "30-Day Period") (i) the Reviewing Party determines that Indemnitee substantively would not be permitted to be indemnified in whole or in part under applicable law or makes no determination in that regard or, (ii) Indemnitee shall not have received full indemnification from the Company, Indemnitee shall have the right to commence litigation seeking a determination by a court of competent jurisdiction as to the propriety of indemnification under the circumstances involved or challenging any such determination (or lack thereof) by the Reviewing Party or any aspect thereof, including the legal or factual bases therefor or the failure of the Company to fully indemnify the Indemnitee, and the Company hereby consents to service of process and to appear in any such proceeding and hereby appoints the Secretary of the Company (or, if such office is not filled at a time in question, any Assistant

2

Secretary of the Company or, if such office is not filled at a time in question, any Vice President of the Company - each, a "Service Receiver") as its agent for such service of process. Any determination by the Reviewing Party not otherwise so challenged shall be conclusive and binding on the Company and Indemnitee.

(c) Change in Control. The Company agrees that if there is a Change in Control (other than a Change in Control which has been approved by a majority of the Company's Board of Directors who were directors immediately prior to such Change in Control), then, with respect to all matters thereafter arising concerning the rights of Indemnitee to payments of Expenses and Expense Advances under this Agreement or any other agreement or under the Company's Certificate of Incorporation or Bylaws as now or hereafter in effect, the Company shall seek legal advice only from the Independent Legal Counsel. Such counsel, among other things, shall render its written opinion to the Company and Indemnitee as to whether and to what extent Indemnitee would be permitted to be indemnified under applicable law. The Company agrees to pay the reasonable fees of the Independent Legal Counsel referred to above and to fully indemnify such counsel against any and all expenses (including attorneys' fees), claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

(d) Mandatory Payment of Expenses. Notwithstanding any other

provision of this Agreement, to the extent that Indemnatee has been successful on the merits or otherwise, including, without limitation, the dismissal of an action without prejudice, in connection with any Claim, Indemnatee shall be indemnified against all Expenses actually and reasonably incurred by Indemnatee in connection therewith.

2. Expenses; Indemnification Procedure.

(a) Advancement of Expenses. The Company shall advance all Expenses incurred by Indemnatee so that the Company, and not Indemnatee, shall be obligated to pay such incurred Expenses. The advances of Expenses to be made hereunder shall be paid by the Company to Indemnatee as soon as practicable, but in any event no later than five (5) days after written demand by Indemnatee therefor to the Company.

(b) Notice and Cooperation by Indemnatee. Indemnatee shall, as a condition precedent to Indemnatee's right to be indemnified under this Agreement, give the Company notice in writing as soon as practicable of any Claim made against Indemnatee for which indemnification will or could be sought under this Agreement; but the Indemnatee's failure to so notify the Company shall not relieve the Company from any liability that it may have to Indemnatee under this Agreement, except to the extent that the Company is able to establish that its ability to avoid liability under such Claim was prejudiced in a material respect by such failure. Notice to the Company shall be directed to a Service Receiver at the address of the Company shown on the signature page of this Agreement (or such other address as the Company shall designate in writing to Indemnatee). In addition, Indemnatee shall, at the expense of the Company, provide the Company with such information and cooperation with respect to a Claim, or any matters related to such Claim, as it may reasonably require in connection with the indemnification provided for herein and as shall be within Indemnatee's power. Any costs or expenses (including attorneys' fees and disbursements) actually and reasonably incurred by

3

Indemnatee in so cooperating shall be borne by the Company (irrespective of the determination as to Indemnatee's entitlement to indemnification), which shall pay any such amount within fifteen (15) days after receiving a request therefor from Indemnatee, and the Company hereby indemnifies and agrees to hold Indemnatee harmless therefrom.

(c) No Presumptions; Burden of Proof. For purposes of this Agreement, the termination of any Claim by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that Indemnatee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification is not permitted by applicable law. In addition, neither the failure of the Reviewing Party to have made a determination as to whether Indemnatee has met any particular standard of conduct or had any particular belief, nor an actual determination by the Reviewing Party that Indemnatee has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by Indemnatee to secure a judicial determination that Indemnatee should be indemnified under applicable law, shall be a defense to a claim for indemnification by Indemnatee hereunder or create a presumption that Indemnatee has not met any particular standard of conduct or did not have any particular belief. In connection with any determination by the Reviewing Party or otherwise as to whether Indemnatee is entitled to be indemnified hereunder, the burden of proof shall be on the Company to establish that Indemnatee is not so entitled.

(d) Notice to Insurers. If, at the time of the receipt by the Company of a notice of a Claim pursuant to Section 2(b) hereof, the Company has one or more policies of liability insurance in effect which may cover such Claim, the Company shall give prompt notice of the commencement of such Claim to the applicable insurer(s) in accordance with the procedures set forth in the applicable policies. The Company shall thereafter take all action necessary or desirable to cause such insurers to pay, on behalf of Indemnatee, all amounts payable as a result of such Claim in accordance with the terms of such policies.

(e) Selection of Counsel. In the event that the Company shall

be obligated hereunder to pay the Expenses with respect to any Claim, the Company, except as otherwise provided below, shall be entitled to assume the defense of such Claim at its own expense with counsel approved by Indemnatee, upon the delivery to Indemnatee of written notice of its election so to do. Indemnatee's approval of such counsel shall not be unreasonably withheld. After delivery of such notice, approval of such counsel by Indemnatee and the retention of such counsel by the Company, the Company will not be liable to the Indemnatee under this Agreement for any fees of counsel subsequently incurred by the Indemnatee with respect to such Claim, other than as provided below. Indemnatee shall have the right to employ Indemnatee's own counsel in connection with a Claim, but the fees and expenses of such counsel incurred after written notice from the Company of its assumption of the defense thereof shall be at the expense of Indemnatee, unless (i) the employment of counsel by Indemnatee has been previously authorized by the Company, or, following a Change in Control (other than a Change in Control approved by a majority of the members of the Board of Directors who were directors immediately prior to such Change in Control), the employment of counsel by Indemnatee has been approved by the Independent Legal Counsel, (ii) Indemnatee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnatee in the conduct of any such defense, or (iii) the Company shall not, in fact, have employed or retained or

4

continued to employ or retain counsel to assume the defense of such Claim, in each of which cases the fees and expenses of Indemnatee's counsel shall be at the expense of the Company. The Company shall not be entitled to assume or control the defense of any Claim brought by or on behalf of the Company or as to which the Indemnatee has reached the conclusion that there may be a conflict of interest between the Company and Indemnatee. The Company shall not settle any Claim in any manner which would impose any penalty or limitation on Indemnatee without the Indemnatee's written consent (which approval shall not be unreasonably withheld).

(f) Settlement of Claims. The Company shall not be required to indemnify Indemnatee under this Agreement for any amounts paid in settlement of any Claim effected without the Company's written consent; provided, however, that consent by the Company to the settlement of any claim shall not be unreasonably withheld. Notwithstanding the foregoing, however, if a Change in Control has occurred (other than a Change in Control approved by a majority of the members of the Board of Directors who were directors immediately prior to such Change in Control), then the Company shall be required to indemnify Indemnatee for amounts paid in settlement of any Claim if the Independent Legal Counsel has approved such settlement or has not made a determination with respect to such settlement within (30) days after the effective date of such Change in Control.

3. Additional Indemnification Rights; Non-Exclusivity.

(a) Scope. The Company hereby agrees to indemnify Indemnatee to the fullest extent permitted by law, notwithstanding that such indemnification is not specifically authorized by the Company's Certificate of Incorporation or Bylaws or by statute. In the event of any change after the date of this Agreement in any applicable law, statute or rule which expands the right of the Company to indemnify Indemnatee, it is the intent of the parties hereto that Indemnatee shall enjoy under this Agreement the greater benefits afforded by such change. In the event of any change in any applicable law, statute or rule which narrows the right of the Company to indemnify the Indemnatee, such change, to the extent not otherwise required by such law, statute or rule to be applied to this Agreement, shall have no effect on this Agreement or the parties' rights and obligations hereunder.

(b) Non-Exclusivity. The indemnification provided by this Agreement shall be in addition to any rights to which Indemnatee may be entitled under the Company's Certificate of Incorporation or Bylaws, any agreement, vote of stockholders or directors, the General Corporation Law of the State of Delaware, or otherwise. The indemnification provided under this Agreement shall continue as to Indemnatee for any Indemnifiable Event while serving in an Indemnified Capacity even though Indemnatee may have ceased to serve in such Indemnified Capacity.

4. No Duplication of Payments. The Company shall not be liable under this Agreement to make any payment in connection with any Claim to the extent Indemnatee has otherwise actually received payment (under any insurance policy or otherwise) of the amounts otherwise indemnifiable hereunder.

5. Partial Indemnification. If Indemnatee is entitled under any provision of this Agreement to indemnification by the Company for a portion of any of the Expenses in

5

connection with the investigation, appeal or settlement of any Claim, but not for the total amount thereof, the Company shall nevertheless indemnify Indemnatee for such portion of the Expenses.

6. Mutual Acknowledgment. Both the Company and Indemnatee acknowledge that, in certain instances, applicable law or public policy may prohibit the Company from indemnifying Indemnatee under this Agreement or otherwise. Indemnatee understands and acknowledges that the Company has undertaken or may be required in the future to undertake with the Securities and Exchange Commission to submit the question of indemnification to a court in certain circumstances for a determination of the Company's right under public policy to indemnify Indemnatee.

7. Liability Insurance. To the extent the Company or any Subsidiary or Affiliate maintains liability insurance applicable to directors, officers, managers, employees, agents, representatives or fiduciaries of the Company or such Subsidiary or Affiliate (collectively, the "Covered Persons"), Indemnatee shall be covered by such policies in such a manner as to provide Indemnatee the same rights and benefits as are accorded to the most favorably insured of the Covered Persons who is then serving in the same capacity or capacities, as the case may be, as Indemnatee.

8. Exceptions. Any other provision herein to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement:

(a) Excluded Action or Omissions. To indemnify Indemnatee for any Expenses resulting from acts, omissions or transactions from which Indemnatee may not be indemnified under applicable law, or for any Expenses resulting from Indemnatee's conduct which is finally adjudged to have been willful misconduct or knowingly fraudulent conduct;

(b) Claims Initiated by Indemnatee. To indemnify or advance Expenses to Indemnatee with respect to Claims initiated or brought voluntarily by Indemnatee and not by way of defense, regardless of whether Indemnatee ultimately is determined to be entitled to such indemnification, Expense Advance or insurance recovery, as the case may be, except (i) with respect to proceedings brought to establish or enforce (a) a right to, or for, Expense Advances and/or, as the case may be, (b) any other right of Indemnatee under this Agreement or any other agreement or insurance policy or under the Company's Certificate of Incorporation or Bylaws now or hereafter in effect, (ii) in specific cases, if the Board of Directors has approved the initiation or bringing of such suit or (iii) as otherwise required under applicable law or statute;

(c) Lack of Good Faith. To indemnify Indemnatee for any Expenses incurred by Indemnatee with respect to any proceeding instituted by Indemnatee to enforce or interpret this Agreement, if a court of competent jurisdiction determines that each of the material assertions made by the Indemnatee in such proceeding was not made in good faith or was frivolous; or

(d) Claims Under Section 16(b). To indemnify Indemnatee for Expenses and the payment of profits arising from the purchase and sale or, sale and purchase, by Indemnatee of securities in violation of Section 16(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any similar successor statute.

9. Period of Limitations. No legal action shall be brought and no cause of action shall be asserted by or in the right of the Company with respect to the matters addressed in this Agreement against Indemnitee, or Indemnitee's estate, spouse, heirs, executors or personal or legal representatives after the expiration of two(2) years from the date of accrual of such cause of action, and any claim or cause of action of the Company shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such two-year period; provided, however, that if any shorter period of limitations is otherwise applicable to any such cause of action, such shorter period shall govern.

10. Construction of Certain Phrases.

(a) Company. For purposes of this Agreement, references to the "Company" shall include, in addition to the resulting entity, any constituent entity (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, managers, employees, agents, representation or fiduciaries, so that if Indemnitee is or was a director, officer, employee, agent or fiduciary of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, manager, employee, agent or fiduciary of an Other Entity, Indemnitee shall stand in the same position under the provisions of this Agreement with respect to the resulting or surviving entity as Indemnitee would have stood with respect to such constituent entity if its separate existence had continued. The consummation of any transaction described in this Section 10(a) shall be subject to the requirements of Section 12, below.

(b) Miscellaneous Terms. For purposes of this Agreement, references to "fines" shall include any excise taxes assessed on Indemnitee with respect to an employee benefit plan; and references to "serving at the request of the Company or any Subsidiary or Affiliate" or words of similar import shall include any service as a director, officer, manager, employee, agent, representative or fiduciary of the Company which imposes duties on, or involves services by, such director, officer, manager, employee, representative, agent or fiduciary with respect to an employee benefit plan, or its participants or its beneficiaries; and if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan, Indemnitee shall be deemed to have acted in a manner "not opposed to the best interests of the Company" as referred to in this Agreement or under any applicable law or statute.

(c) Change in Control. For purposes of this Agreement, a "Change in Control" shall be deemed to have occurred if (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of Voting Securities (as defined below) of the Company representing more than twenty percent (20%) of the total voting power represented by the Company's then outstanding Voting Securities, (ii) during any period of two (2) consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company and any new director (other than a director designated by a person who has entered

7

into an agreement with the Company to effect a transaction described in clauses (i), (iii) and (iv) of this Section 10(c)) whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof, or (iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation other than a merger or consolidation which would result in the Voting Securities of the

Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into Voting Securities of the surviving entity) at least 80% of the total voting power of the resulting or surviving entity outstanding immediately after such merger or consolidation, or (iv) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company (in one transaction or a series of transactions) of all or substantially all of the Company's assets. For purposes of this Agreement, "Voting Securities" shall mean any securities the holders of which vote generally in the election of directors.

(d) Independent Legal Counsel. For purposes of this Agreement, "Independent Legal Counsel" shall mean an attorney or firm of attorneys, who shall not have otherwise performed services for the Company or Indemnitee within the then prior three years (other than with respect to matters concerning the rights of Indemnitee under this Agreement, or of other indemnitees under similar indemnity agreements) selected by the Company and approved by Indemnitee in writing, which approval shall not be unreasonably withheld. Notwithstanding the foregoing, the term "Independent Legal Counsel" shall not include any firm or person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's right to indemnification under this Agreement.

(e) Reviewing Party. For purposes of this Agreement, a "Reviewing Party" shall mean (i) any person or group of persons consisting of a member or members of the Company's Board of Directors and/or, as the case may be, or any other person appointed by the Board of Directors who is not a party to the particular Claim for which Indemnitee is seeking indemnification, or (ii) Independent Legal Counsel.

11. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall constitute an original and all of which, together, shall constitute one and the same document.

12. Binding Effect; Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and permitted assigns, heirs and personal and legal representatives. The Company may not assign its obligations under this Agreement to any individual or entity except by operation of law to an entity acquiring all or substantially all of the business and/or, as the case may be, assets of the Company (a "Successor") and, in any such case, the Company shall continue to be obligated hereunder. The Company shall require and cause any Successor by written agreement in form and substance satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place. This Agreement shall

8

continue in effect regardless of whether Indemnitee continues to serve in an Indemnified Capacity.

13. Attorneys' Fees. In the event that any action is instituted by Indemnitee in a court of competent jurisdiction under this Agreement or under any liability insurance policies maintained by the Company to enforce, or interpret any of the terms hereof or thereof, Indemnitee shall be entitled to be paid all Expenses actually and reasonably incurred by Indemnitee with respect to such action, regardless of whether Indemnitee is ultimately successful in such action, and shall be entitled to an advance of such Expenses in the manner provided in Section 2 (a), above, with respect to such action, unless, as a part of such action, the court in which such action is brought determines that each of the material assertions made by Indemnitee as a basis for such action was not made in good faith or was frivolous. In the event of an action instituted by or in the name of the Company under this Agreement to enforce or interpret any of the terms of this Agreement, Indemnitee shall be entitled to be paid all Expenses actually and reasonably incurred by Indemnitee in defense of such action (including costs and expenses incurred with respect to Indemnitee's counterclaims and cross-claims made in such action), and shall be entitled to an advance of such Expenses in the manner provided in Section 2 (a), above, with respect to such action, unless as a part of such action such court determines

that each of Indemnitee's material defenses to such action were made in bad faith or were frivolous.

14. Notice. Any notices or demands given in connection herewith shall be in writing and deemed given when (a) personally delivered, (b) sent by facsimile transmission to a number provided in writing by the addressee and a confirmation of the transmission is received by the sender or (c) two (2) days after being deposited for delivery with a recognized overnight courier, such as Fed Ex, and addressed or sent, as the case may be, to the address or facsimile number set forth below or to such other address or facsimile number as such party may in writing designate:

If to Indemnitee: Thomas M. Walsh

If to Company: Talk.com Inc.
12020 Sunrise Valley Drive
Suite 250
Reston, VA 20190
Attn: Secretary

15. Consent to Jurisdiction. The Company and Indemnitee each hereby irrevocably consent to the jurisdiction of the courts of the Commonwealth of Pennsylvania for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be commenced, prosecuted and continued only in the courts of the Commonwealth of Pennsylvania in and for the County of Philadelphia, which shall be the exclusive and only proper forum for adjudicating such a claim.

16. Severability. The provisions of this Agreement shall be severable in the event that any of the provisions hereof (including any provision within a single section, paragraph or sentence) are held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable, and the remaining provisions shall remain enforceable to the fullest extent permitted by law. Furthermore, to the fullest extent possible, the provisions of this Agreement

9

(including, without limitation, each portion of this Agreement containing any provision held to be invalid, void or otherwise unenforceable, that is not itself held to be invalid, void or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

17. Choice of Law. This Agreement shall be governed by and its provisions construed and enforced in accordance with the laws of the State of Delaware, without regard to the conflict of laws principles thereof.

18. Subrogation. In the event of payment to, or on behalf of Indemnitee under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall, at Company's expense, execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Company effectively to bring suit to enforce such rights.

19. Amendment and Termination. No amendment, modification, termination or cancellation of this Agreement shall be effective unless it is in writing signed by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed to, or shall constitute a waiver of, any other provisions hereof (whether or not similar thereto), nor shall such waiver constitute a continuing waiver. Except as specifically set forth herein, no failure to exercise, or any delay in exercising, any right or remedy hereunder shall constitute a waiver thereof.

20. Integration and Entire Agreement. This Agreement sets forth the entire understanding between the parties hereto and supersedes all previous written and oral negotiations, commitments, understandings and agreements relating to the subject matter hereof between the parties hereto.

21. No Construction as Employment Agreement. Nothing contained in this Agreement shall be construed as giving Indemnatee any right to be retained in the employ of the Company or any Subsidiaries.

22. Certain Words. As used in this Agreement, the words "herein," "hereunder," "hereof" and similar words shall be deemed to refer to this Agreement in its entirety, and not to any particular provision of this Agreement unless the context clearly requires otherwise.

10

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

TALK.COM INC.

By: _____

Title: _____

AGREED TO AND ACCEPTED

INDEMNITEE:

Thomas M. Walsh

11

EX-10.3 OTHERDOC

4

0004.txt

EXHIBIT 10.3

Document is copied.

EXHIBIT 10.3

NON-QUALIFIED STOCK OPTION AGREEMENT

To: Thomas M. Walsh ("Employee")

Name313 Heatherfield Drive, Souderton, PA 18964

Address

Date of Grant: August 7, 2000
-----Exercise Price: \$4-5/8 per share

Employee is hereby granted the option described below, effective as of the above date of grant, to purchase shares of common stock, \$.01 par value per share ("Stock"), of Talk.com, Inc. (the "Company") at the exercise price shown above. Capitalized terms used herein without definition have the meanings assigned in the employment agreement dated as of the above date of grant between the Company, Talk.com Holding Corp. and Employee (the "Employment Agreement").

1. Employee is hereby granted options to purchase 160,000 shares of Stock (the "Option"). The Option shall have an exercise price equal to four and sixty-two and one-half cents dollars (\$4.625) per share (the "Exercise Price") and, subject to Section 2, below, shall vest with respect to the indicated number of shares of Stock according to the following schedule:

(a) fifty-three thousand three hundred thirty-four (53,334) shares of Stock shall vest and become exercisable upon the first anniversary of the date of grant.

(b) fifty-three thousand three hundred thirty-three thousand (53,333) shares of Stock shall vest and become exercisable upon the second anniversary of the date of grant.

(c) fifty -three thousand three hundred thirty-three thousand (53,333) shares of Stock shall vest and become exercisable upon the third anniversary of the date of grant.

(d) Notwithstanding the foregoing, (i) any portion of the Option that was not previously vested and exercisable shall become fully vested and exercisable on the effective date of any termination of the employment of Employee under the Employment Agreement by the Company without Cause (as defined in Section 6.3 of the Employment Agreement) or by Employee for Good Reason (as defined in Section 6.4(b) of the Employment Agreement) and (ii) the Board of Directors of the Company (the "Board") or its designees may accelerate or waive the aforesaid scheduled vesting dates with respect to any or all of the shares of Stock covered by the Option.

2. In the event of a "Change in Control" (as hereafter defined) of the Company, any portion of the Option that was not previously vested and exercisable on the effective date of the Change in Control, shall become fully vested and exercisable on such effective date of such Change in Control. A "Change in Control" shall be deemed to have occurred upon the happening of any of the following events:

- (a) any Person (as defined in Section 3(a)(9) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than the Company, becomes the Beneficial Owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company or any Significant Subsidiary (as defined below) representing fifty percent (50%) or more of the combined voting power of the Company's, or such Significant Subsidiary's, as the case may be,

then outstanding securities; provided, that a Person shall be deemed to be the Beneficial Owner of all shares that any such Person has the right to acquire pursuant to any agreement or arrangement or upon exercise of conversion rights, warrants, options or otherwise, without regard to the sixty (60)-day period referred to in Rule 13d-3 under the Exchange Act);

- (b) during any period of two years, individuals who at the beginning of such period constitute the Board and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clauses (a), (b) or (d) of this Section 2) whose election by the Board or nomination for election by stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the two-year period or whose election or nomination for election was previously so approved, but excluding for this purpose any such new director whose initial assumption of office occurs as a result of either an actual or threatened election contest or other actual or threatened solicitation of proxies or consents by or on behalf of an individual, corporation, partnership, group, association or other entity other than the Board, cease for any reason to constitute at least a majority of the Board of either or the Company or a Significant Subsidiary;
- (c) the consummation of a merger or consolidation of the Company or any subsidiary of the Company owning directly or indirectly all or substantially all of the consolidated assets of the Company (a "Significant Subsidiary") with any other entity, other than a merger or consolidation which would result in the voting securities of the Company or a Significant Subsidiary outstanding immediately prior thereto continuing to represent more than fifty percent (50%) of the combined voting power of the surviving or resulting entity outstanding immediately after such merger or consolidation;
- 2
- (d) the shareholders of the Company approve a plan or agreement for the sale or disposition of fifty percent (50%) or more of the consolidated assets of the Company in which case the Board shall determine the effective date of the Change of Control resulting therefrom;
- (e) any other event occurs which the Board determines, in its discretion, would materially alter, the structure of the Company or its ownership; and

3. Employee may exercise the Option by giving written notice to the Secretary of the Company on forms supplied by the Company at its then principal executive office, accompanied by payment of the Exercise Price for the total number of shares specified to be purchased by Employee. The payment may be in any of the following forms: (a) cash, which may be evidenced by a check and includes cash received from a so-called "cashless exercise" of the Option; (b) certificates representing shares of Stock, which will be valued at the fair market value (as defined in the Employment Agreement) per share of the Stock on the date of the Option exercise in question, accompanied by an assignment of such Stock to the Company; or (c) any combination of cash and Stock valued as provided in clause (b), immediately above. Any assignment of Stock shall be in a form and substance satisfactory to the Secretary of the Company, including

guarantees of signature(s) and payment of all transfer taxes, if the Secretary of the Company deems such guarantees necessary or desirable.

4. The Option will, to the extent not previously exercised by Employee, expire on July 24, 2010 or ninety (90) days after your employment with the Company is terminated for any reason.

5. In the event of any change in the outstanding shares of the Stock by reason of a stock dividend, stock split, consolidation, transfer of assets, reorganization, conversion or what the Board deems in its reasonable discretion to be similar circumstances, the number and kind of shares of Stock subject to the Option and the Exercise Price shall be appropriately adjusted in a manner to be determined in the reasonable discretion of the Board.

6. The Option is not transferable otherwise than by will or the laws of descent and distribution, and is exercisable during Employee's lifetime only by Employee, including, for this purpose, Employee's legal guardian or custodian in the event of the disability of Employee. Until the Exercise Price has been paid in full pursuant to due exercise of this Option and certificate(s) representing Employee's ownership of the purchased shares are issued to Employee, Employee does not have any rights as a shareholder of the Company. The Company reserves the right not to deliver to Employee the certificate(s) representing shares purchased by virtue of the exercise of the Option during any period of time in which the Company deems, based on the written opinion of its counsel, that such delivery would violate a federal, state, local or securities exchange rule, regulation or law.

7. Notwithstanding anything to the contrary contained herein, the Option is not exercisable:

(a) During any period of time in which the Company deems, based on the written

3

opinion of its counsel, that the exercisability of the Option, the offer to sell the shares underlying the Option, or the sale thereof, would violate a federal, state, local or securities exchange rule, regulation or law; or

(b) Until Employee has paid or made suitable arrangements to pay all federal, state and local income tax withholding required to be withheld by the Company in connection with the Option exercise.

8. The following two paragraphs shall be applicable if, on a date of exercise of the Option, the Stock to be purchased pursuant to such exercise has not been registered under the Securities Act of 1933, as amended (the "Act"), and under applicable state securities laws, and shall continue to be applicable for so long as such registration has not occurred:

(a) Employee hereby agrees, warrants and represents that he will acquire the Stock to be issued hereunder for his own account for investment purposes only, and not with a view to, or in connection with, any resale or other distribution of any shares of such Stock, except as hereafter permitted. Employee further agrees that he will not at any time make any offer, sale, transfer, pledge or other disposition of such Stock to be issued hereunder without an effective registration statement under the Act, and under any applicable state securities laws or an opinion of counsel acceptable to the Company to the effect that the proposed transaction will be exempt from such registration. Employee shall execute such instruments, representations, acknowledgments and agreements as the Company may, in its sole discretion, deem advisable to avoid any violation of federal, state, local or securities exchange rule, regulation or law.

(b) The certificates for Stock to be issued to Employee hereunder shall bear the following legend:

"The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended, or under applicable state securities laws. The shares have been acquired for investment and may not be offered, sold,

transferred, pledged or otherwise disposed of without an effective registration statement under the Securities Act of 1933, as amended, and under any applicable state securities laws or an opinion of counsel acceptable to the Company that the proposed transaction will be exempt from such registration."

The foregoing legend shall be removed upon registration of the legended shares under the Act and under any applicable state laws or upon receipt of an opinion of counsel acceptable to the Company that said registration is no longer required.

9. The sole purpose of the agreements, warranties, representations and legend set forth in the two immediately preceding paragraphs is to prevent violations of the Act, and any applicable state securities laws.

4

10. It is the intention of the Company and Employee that the Option shall not be an "Incentive Stock Option" as that term is used in Section 422 of the Internal Revenue Code of 1986, as amended, and the regulations thereunder. The Option is not granted pursuant to any stock option plan.

11. This agreement and the Employment Agreement constitute the entire understanding between the Company and Employee with respect to the subject matter hereof and no amendment, modification or waiver of this agreement, in whole or in part, shall be binding upon the Company or Employee unless in writing and signed by the Executive Vice President of the Company and Employee. This agreement and the performances of the parties hereunder shall be construed in accordance with, and governed by the laws of, the Commonwealth of Pennsylvania.

Employee shall sign a copy of this agreement and return it to the Company's Secretary, thereby indicating Employee's understanding of, and agreement with its terms and conditions.

TALK.COM INC,

By: _____

5

I hereby acknowledge receipt of a copy of the foregoing stock option agreement and, having read it, hereby signify my understanding of, and my agreement with, its terms and conditions.

August 5, 2000

Thomas M. Walsh

(Date)

6

EX-10.4 OTHERDOC

5

0005.txt

EXHIBIT 10.4

Document is copied.

EXHIBIT 10.4

CONFIDENTIAL TREATMENT REQUESTED

REDACTED

=====

CREDIT FACILITY AGREEMENT

BY AND AMONG

TALK.COM HOLDING CORP.

AND

ACCESS ONE COMMUNICATIONS CORP.

AND

CERTAIN OF THEIR AFFILIATES AND DIRECT AND INDIRECT SUBSIDIARIES

AND

MCG FINANCE CORPORATION
(AS AGENT FOR ITSELF AND THE OTHER LENDERS)

Executed and Effective as of October 20, 2000

=====

TABLE OF CONTENTS

| | |
|---|---|
| ARTICLE 1: THE CREDIT FACILITIES..... | 1 |
| 1.1. Term Loan..... | 1 |
| 1.1.1. Establishment of Credit..... | 1 |
| 1.1.2. Facility..... | 1 |
| 1.1.3. Use of..... | 1 |
| 1.1.4. Term Loan..... | 2 |
| 1.1.5. Notes..... | 2 |
| 1.1.5.1. Interest..... | 3 |
| 1.1.5.2. Establishment of Portions..... | 3 |
| 1.1.5.3. Interest Rate Determination..... | 3 |
| 1.1.5.4. Selection of Rate Index..... | 3 |
| 1.1.5.5. Applicable Rate Margins..... | 3 |
| 1.1.5.6. Calculation of Interest..... | 4 |

| | | | |
|--------------------|--|-------------------------|----|
| | 1.1.5.7. | Special LIBO Rate | 4 |
| Provisions..... | | | |
| | 1.1.6. | Repayment and | 5 |
| Prepayment..... | | | |
| | 1.1.6.1. | Interest | 6 |
| Payments..... | | | |
| | 1.2.6.2. | Principal | 6 |
| Payments..... | | | |
| | 1.1.6.3. | | 6 |
| Reserved..... | | | |
| | 1.1.6.4. | Payments at | 6 |
| Maturity..... | | | |
| | 1.1.6.5. | | 6 |
| Prepayments..... | | | |
| | 1.1.6.6. | Availability for | 8 |
| Reborrowing..... | | | |
| 1.2. | Line of Credit | | 7 |
| Facility..... | | | |
| | 1.2.1. | Establishment of Credit | 7 |
| Facility..... | | | |
| | 1.2.2. | Facility | 8 |
| Maturity..... | | | |
| | 1.2.3. | Use of | 8 |
| Proceeds..... | | | |
| | 1.2.4. | Line of Credit | 8 |
| Notes..... | | | |
| | 1.2.5. | | 9 |
| Interest..... | | | |
| | 1.2.5.1. | | 9 |
| Reserved..... | | | |
| | 1.2.5.2. | Establishment of | 9 |
| Portions..... | | | |
| | 1.2.5.3. | Interest Rate | 9 |
| Determination..... | | | |
| | 1.2.5.4. | Selection of Rate | 9 |
| Index..... | | | |
| | 1.2.5.5. | Applicable Rate | 10 |
| Margins..... | | | |
| | 1.2.5.6. | Calculation of | 10 |
| Interest..... | | | |
| | 1.2.5.7. | Special LIBO Rate | 10 |
| Provisions..... | | | |
| | 1.2.6. | Repayment and | 12 |
| Prepayment..... | | | |
| | 1.2.6.1. | Interest | 12 |
| Payments..... | | | |
| | 1.2.6.2. | | 12 |
| Reserved..... | | | |
| | 1.2.6.3. | | 12 |
| Reserved..... | | | |
| | 1.2.6.4. | Payments at | 12 |
| Maturity..... | | | |
| | 1.2.6.5. | | 12 |
| Prepayments..... | | | |
| | 1.2.6.6. | Availability for | 13 |
| Reborrowing..... | | | |
| 1.3. | Determination of Commitment Amounts and Available Credit | | 13 |
| Portion..... | | | |
| | 1.3.1. | Initial | 14 |
| Commitments..... | | | |

| | | |
|------------|---|----|
| 1.3.2. | Available Credit Portion for Line of Credit..... | 14 |
| 1.3.3. | Voluntary Reduction of Commitment..... | 14 |
| 1.4. | Advances..... | 14 |
| 1.4.1. | Requesting Advances..... | 14 |
| 1.4.2. | Funding Advances..... | 15 |
| 1.4.3. | Indemnification for Revocation or Failure to Satisfy Conditions..... | 15 |
| 1.4.4. | Obligation to Advance..... | 15 |
| 1.5. | Payments in General..... | 15 |
| 1.5.1. | Manner and Place of Payments..... | 15 |
| 1.5.2. | Special Payment Timing Issues..... | 16 |
| 1.5.3. | Application of Payments..... | 16 |
| 1.5.4. | LIBO Rate Payments Not at End of Interest Period..... | 16 |
| 1.5.5. | Capital Adequacy, Taxes and Other Adjustments..... | 17 |
| 1.5.6. | Payment of Expenses, Indemnities and Protective Advances..... | 17 |
| 1.5.7. | Payments upon Termination..... | 17 |
| 1.5.8. | Late Payments..... | 17 |
| 1.5.9. | Default Interest..... | 17 |
| 1.5.10. | Usury Savings Provision..... | 18 |
| 1.6. | Release of Security..... | 18 |
| 1.7. | Fees and Other Compensation..... | 18 |
| 1.7.1. | Structuring Fee..... | 18 |
| 1.7.2. | Origination Fee for Term Facility..... | 18 |
| 1.7.3. | Origination Fee for Line of Credit Facility..... | 18 |
| 1.7.4. | Periodic Unused Fee..... | 18 |
| 1.7.5. | Issuance of Warrants upon Establishment of Line Facility..... | 19 |
| 1.7.6. | Issuance of Warrants Associated with EBITDA Shortfall..... | 19 |
| 1.7.7. | AOL Disbursement Fee..... | 20 |
| 1.7.8. | Other Fees..... | 20 |
| ARTICLE 2: | CONDITIONS PRECEDENT..... | 20 |
| 2.1. | Closing Conditions..... | 20 |
| 2.1.1. | Compliance..... | 20 |
| 2.1.2. | Documents..... | 22 |
| 2.2. | Effectiveness of Line of Credit Facility..... | 23 |
| 2.3. | All Line Advances..... | 23 |
| ARTICLE 3: | REPRESENTATIONS AND WARRANTIES..... | 23 |
| 3.1. | Organization and Good Standing..... | 24 |
| 3.2. | Power and Authority..... | 24 |
| 3.3. | Validity and Legal Effect..... | 24 |
| 3.4. | No Violation of Laws or Agreements..... | 24 |
| 3.5. | Title to Assets, Existing Encumbrances; Identification of Intellectual and Real Property..... | 25 |
| 3.6. | Capital Structure and Equity Ownership..... | 25 |
| 3.7. | Subsidiaries, Affiliates and Investments..... | 25 |
| 3.8. | Material Contracts..... | 25 |
| 3.9. | Licenses and Authorizations..... | 26 |
| 3.10. | Taxes and Assessments..... | 26 |

| | | |
|------------|---|----|
| 3.11. | Litigation and Legal Proceedings..... | 26 |
| 3.12. | Accuracy of Financial Information..... | 26 |
| 3.13. | Accuracy of Other Information..... | 26 |
| 3.14. | Compliance with Laws Generally..... | 26 |
| 3.15. | ERISA Compliance..... | 26 |
| 3.16. | Environmental Compliance..... | 27 |
| 3.17. | Margin Rule Compliance..... | 27 |
| 3.18. | Fees and Commissions..... | 27 |
| 3.19. | Solvency..... | 27 |
| 3.20. | Reserved..... | 27 |
| ARTICLE 4: | AFFIRMATIVE COVENANTS..... | 27 |
| 4.1. | Financial Covenants and Ratios..... | 27 |
| 4.1.1. | Minimum Revenue by Subscriber Type..... | 27 |
| 4.1.2. | Maximum Subscriber Acquisition Costs..... | 27 |
| 4.1.3. | Minimum Gross Profit Margin..... | 27 |
| 4.1.4. | Interest Coverage Ratio..... | 27 |
| 4.1.5. | Total Charge Coverage Ratio..... | 27 |
| 4.1.6. | Funded Debt-Revenue Leverage Covenants..... | 27 |
| 4.1.7. | Funded Debt-OCF Leverage Covenants..... | 27 |
| 4.1.8. | Liquidity Covenant Prior to Line Effective Date..... | 27 |
| 4.2. | Periodic Financial Statements and Compliance Certificates..... | 27 |
| 4.2.1. | Quarterly Financial Statements..... | 28 |
| 4.2.2. | Annual Financial Statements..... | 28 |
| 4.3. | Other Financial and Specialized Reports..... | 28 |
| 4.3.1. | Reserved..... | 28 |
| 4.3.2. | SEC Filings, Shareholder Communications and Press Releases..... | 28 |
| 4.4. | Reserved..... | 29 |
| 4.5. | Books and Records; Maintenance of Properties..... | 29 |
| 4.6. | Existence and Good Standing..... | 29 |
| 4.7. | Deposit Accounts..... | 29 |
| 4.8. | Insurance; Disaster Contingency..... | 29 |
| 4.8.1. | General Insurance Provisions..... | 30 |
| 4.8.2. | Disaster Recovery and Contingency Program..... | 30 |
| 4.9. | Loan Purpose..... | 30 |
| 4.10. | Taxes..... | 30 |
| 4.11. | Reserved..... | 30 |
| 4.12. | Litigation and Administrative Proceedings..... | 30 |
| 4.13. | Monitoring Compliance; Occurrence of Certain Events..... | 30 |
| 4.14. | Compliance with Laws..... | 31 |
| 4.15. | Further Actions..... | 31 |
| 4.15.1. | Additional Collateral..... | 31 |
| 4.15.2. | Further Assurances..... | 31 |
| 4.15.3. | Estoppel Certificates..... | 32 |
| 4.15.4. | Waivers and Consents..... | 32 |
| 4.15.5. | Access and Audits..... | 32 |

| | | |
|------------|--|----|
| 4.15.6. | Updating of Loan Document Schedules..... | 32 |
| 4.16. | Costs and Expenses..... | 32 |
| 4.17. | Other Information..... | 33 |
| 4.18. | Reserved..... | 33 |
| 4.19. | Post-Closing Items..... | 33 |
| ARTICLE 5: | NEGATIVE COVENANTS..... | 35 |
| 5.1. | Capital Expenditures..... | 35 |
| 5.2. | Additional Indebtedness..... | 35 |
| 5.3. | Guaranties..... | 35 |
| 5.4. | Reserved..... | 35 |
| 5.5. | Liens and Encumbrances; Negative Pledge..... | 37 |
| 5.6. | Transfer of Assets..... | 37 |
| 5.7. | Acquisitions and Investments..... | 39 |
| 5.8. | New Ventures; Mergers..... | 39 |
| 5.9. | Transactions with Affiliates..... | 39 |
| 5.10. | Distributions or Dividends..... | 40 |
| 5.11. | Payment of Subordinated Indebtedness..... | 40 |
| 5.12. | Reserved..... | 40 |
| 5.13. | Issuance of Additional Equity..... | 40 |
| 5.14. | Removal of Assets..... | 41 |
| 5.15. | Modifications to Organic Documents..... | 41 |
| 5.16. | Terms of and Modifications to Material Relationships..... | 41 |
| 5.17. | Margin Stock Restrictions; Other Federal Statutes..... | 41 |
| ARTICLE 6: | ADDITIONAL COLLATERAL AND RIGHT OF SET OFF..... | 41 |
| 6.1. | Additional Collateral..... | 41 |
| 6.2. | Right of Set-Off..... | 42 |
| 6.3. | Additional Rights..... | 42 |
| ARTICLE 7: | DEFAULT AND REMEDIES..... | 42 |
| 7.1. | Events of Default..... | 42 |
| 7.1.1. | Payment Obligations..... | 42 |
| 7.1.2. | Representations and Warranties..... | 42 |
| 7.1.3. | Financial Covenants..... | 42 |
| 7.1.4. | Other Covenants in Loan Documents..... | 42 |
| 7.1.5. | Default Under Other Agreements with Administrative Agent or Lenders..... | 43 |
| 7.1.6. | Default Under Material Agreements with Other Parties..... | 43 |
| 7.1.7. | Security Interest..... | 44 |
| 7.1.8. | Change of Control..... | 44 |
| 7.1.9. | Government Action..... | 45 |
| 7.1.10. | Insolvency..... | 45 |
| 7.1.11. | Additional Liabilities..... | 45 |
| 7.1.12. | Reserved..... | 45 |
| 7.1.13. | FCC and Other Regulatory-Action Defaults..... | 45 |
| 7.1.14. | Loss or Revocation of Guaranty..... | 45 |
| 7.2. | Remedies..... | 45 |
| 7.2.1. | Acceleration, Termination and Pursuit of Collateral..... | 46 |
| 7.2.2. | Mandatory Partial Prepayments..... | 46 |
| 7.2.3. | Other Remedies..... | 46 |

| | | |
|-------------|--|----|
| 7.2.4. | Special Regulatory-Related Remedies..... | 46 |
| ARTICLE 8: | RELATIONSHIP AMONG LENDERS..... | 47 |
| 8.1. | Appointment, Authorization and Grant of Authority..... | 47 |
| 8.2. | Acceptance of Appointment..... | 48 |
| 8.3. | Administrative Agent's Relationship with Borrowers..... | 48 |
| 8.4. | Non-Reliance on Administrative Agent and Other Lenders..... | 49 |
| 8.5. | Reliance by Administrative Agent..... | 49 |
| 8.6. | Delegation of Duties; Additional Reliance by Administrative Agent..... | 49 |
| 8.7. | Acting on Instructions of Lenders..... | 50 |
| 8.8. | Actions Upon Occurrence of Default or Event of Default..... | 50 |
| 8.9. | Administrative Agent's Rights as Lender in Individual Capacity..... | 50 |
| 8.10. | Advances By Administrative Agent..... | 51 |
| 8.11. | Payments to Lenders..... | 51 |
| 8.12. | Pro-Rata Sharing of Setoff Proceeds..... | 51 |
| 8.13. | Limitation on Liability of Administrative Agent..... | 51 |
| 8.14. | Indemnification..... | 52 |
| 8.15. | Resignation; Successor Administrative Agent..... | 52 |
| ARTICLE 9: | DEFINITIONS AND RULES OF CONSTRUCTION..... | 52 |
| 9.1. | Definitions..... | 65 |
| 9.2. | Rules of Interpretation and Construction..... | 65 |
| 9.2.1. | Plural; Gender..... | 66 |
| 9.2.2. | Section and Schedule References..... | 66 |
| 9.2.3. | Titles and Headings..... | 66 |
| 9.2.4. | Including and Among Other References..... | 66 |
| 9.2.5. | Shall, Will, Must, Can, May References..... | 66 |
| 9.2.6. | Time of Day References..... | 66 |
| 9.2.7. | Knowledge of a Person..... | 66 |
| 9.2.8. | Successors and Assigns..... | 67 |
| 9.2.9. | Modifications to Documents..... | 67 |
| 9.2.10. | References to Laws and Regulations..... | 67 |
| 9.2.11. | Financial and Accounting Terms..... | 67 |
| 9.2.12. | Conflicts Among Loan Documents..... | 67 |
| 9.2.13. | Independence of Covenants and Defaults..... | 67 |
| 9.2.14. | Administrative Agent..... | 67 |
| ARTICLE 10: | MISCELLANEOUS..... | 67 |
| 10.1. | Indemnification, Reliance and Assumption of Risk..... | 67 |
| 10.2. | Assignments and Participations..... | 68 |
| 10.3. | No Waiver; Delay..... | 69 |
| 10.4. | Modifications and Amendments..... | 69 |
| 10.5. | Disclosure of Information to Third Parties..... | 70 |
| 10.6. | Binding Effect and Governing Law..... | 71 |
| 10.7. | Notices..... | 72 |
| 10.8. | Relationship with Prior Agreements..... | 72 |
| 10.9. | Severability..... | 72 |
| 10.10. | Termination and Survival..... | 72 |

| | | |
|--------|---|----|
| 10.11. | Reinstatement..... | 73 |
| 10.12. | Counterparts..... | 73 |
| 10.13. | Waiver of Suretyship Defenses..... | 73 |
| 10.14. | WAIVER OF LIABILITY..... | 73 |
| 10.15. | FORUM SELECTION; CONSENT TO JURISDICTION..... | 74 |
| 10.16. | WAIVER OF JURY TRIAL..... | 74 |

SCHEDULES:

| | | |
|----------|------|---|
| Schedule | A | List of Borrowers |
| Schedule | 3.1 | Good Standing / Foreign Qualification Jurisdictions |
| Schedule | 3.2 | Missing Consents |
| Schedule | 3.5A | Intellectual Property |
| Schedule | 3.5B | Real Property Interests |
| Schedule | 3.5C | Operating Names / Trade Names |
| Schedule | 3.6 | Capital Structure / Equity Ownership |
| Schedule | 3.7 | Subsidiaries, Affiliates & Investments |
| Schedule | 3.8 | Material Contracts |
| Schedule | 3.9 | Licenses and Authorizations |
| Schedule | 3.10 | Taxes and Assessments |
| Schedule | 3.11 | Material Litigation |
| Schedule | 3.18 | Fees and Commissions |
| Schedule | 4.7 | Existing Deposit Accounts |
| Schedule | 5.2 | Permitted Additional Indebtedness |
| Schedule | 5.3 | Permitted Additional Guaranties |
| Schedule | 5.5 | Permitted Additional Liens |
| Schedule | 5.7 | Permitted Additional Investments |

EXHIBITS:

| | | |
|---------|-------|--|
| Exhibit | 1.7.6 | Form of EBITDA Shortfall Warrant |
| Exhibit | 1.4.1 | Form of Advance Request |
| Exhibit | 4.2 | Form of Borrowing Base and Periodic Compliance Certificate |
| Exhibit | 10.2 | Form of Assignment and Assumption Agreement |

vii

CREDIT FACILITY AGREEMENT

THIS CREDIT FACILITY AGREEMENT (as defined in Article 9, along with all other defined terms, this "Agreement") is made and effective as of October 20, 2000, by and among TALK.COM HOLDING CORP. ("Talk Holding"), and ACCESS ONE COMMUNICATIONS CORP. ("Access One") and CERTAIN AFFILIATES AND DIRECT AND INDIRECT SUBSIDIARIES OF TALK HOLDING AND ACCESS ONE (WHICH EITHER ARE LISTED ON SCHEDULE A AS OF THE EFFECTIVE DATE HEREOF OR ARE HEREAFTER ADDED AS BORROWING SUBSIDIARIES PURSUANT TO THE TERMS HEREOF) (as more fully defined in Article 9, Talk Holding, Access One and each such other borrower are referred to individually as a "Borrower" and collectively as the "Borrowers"), and EACH FINANCIAL INSTITUTION THAT FROM TIME TO TIME IS A "LENDER" HEREUNDER (as more fully defined in Article 9, each, a "Lender"; collectively, the "Lenders"), and MCG FINANCE CORPORATION (as more fully defined in Article 9, "MCG" or "Administrative Agent").

R E C I T A L S

WHEREAS, Borrowers desire and have applied to Lenders for a credit facility (to be administered by Administrative Agent) consisting of a term loan facility pursuant to which up to \$20 million can be borrowed on the Closing Date on a senior secured basis and a line of credit arrangement pursuant to which (upon successful syndication thereof by Administrative Agent) up to \$30 million can be borrowed from time to time on a senior secured basis; and

WHEREAS, Lenders and Administrative Agent are each willing to accommodate the request for credit upon and subject to the terms, conditions and provisions of the Loan Documents;

NOW, THEREFORE, for good and valuable consideration (receipt and sufficiency of which are hereby acknowledged), and intending to be legally bound hereby, Borrowers (jointly and severally), each Lender and Administrative Agent each hereby agrees as follows:

ARTICLE 1: THE CREDIT FACILITIES

1.1. Term Loan Facility.

1.1.1. Establishment of Credit Facility. Subject to the terms and conditions of and in reliance upon the representations and warranties in the Loan Documents, each Term Lender (severally and on a Pro Rata basis with the other Term Lenders) will lend funds to Borrowers on a senior secured basis on the Closing Date in an aggregate principal amount advanced not to exceed the Term Loan Commitment (as determined in accordance with Section 1.3).

1.1.2. Facility Maturity. The Term Loan Facility will mature on June 30, 2001 (as may be extended from time to time as set forth in this Section 1.1.2 or otherwise in the sole and absolute discretion of the Term Lenders, "Term Loan Maturity Date"). Notwithstanding the foregoing, Borrowers (upon delivery of written notice to Administrative Agent at any time prior to the

then effective Term Loan Maturity Date) shall be entitled (a) to extend any such Term Loan Maturity Date from time to time for additional successive periods not to exceed 364 calendar days from the date of such notice but in no event beyond June 30, 2005 and/or (b) to extend the then effective Term Loan Maturity Date until June 30, 2005 upon delivery to Administrative Agent of written evidence satisfactory to Administrative Agent that Borrowers have obtained all necessary regulatory approvals (in final, non-appealable form) for the incurrence of indebtedness as set forth in this Agreement and having a term with such a requested Term Loan Maturity Date.

1.1.3. Use of Proceeds. The funds advanced under this Term Loan Facility may be used exclusively as follows:

a. \$4 million, to fund and/or reimburse Borrowers for various costs, fees, expenses and other payments made in connection with the Access One Merger, and

b. \$15.25 million, to satisfy and refinance the indebtedness owed by one or more Borrowers to the various Persons separately disclosed to Administrative Agent in writing on the Closing Date (which disclosure shall identify each payee, the corresponding amounts being satisfied, and the purpose for which such indebtedness being satisfied was initially incurred), and

c. To fund the purchase of specific property, plant and equipment separately disclosed to Administrative Agent in writing on the Closing Date, and

d. Up to \$750,000 to pay for services and materials associated with a Borrower's marketing activities (as to which, upon reasonable request of Administrative Agent, Borrowers shall provide supporting descriptive information), and

e. The balance of the Term Loan Commitment (if any) to pay (i) for fees and expenses associated with consummating and documenting the transactions contemplated by this Agreement, and (ii) for such other purposes as specifically authorized hereunder or in writing by the Term Lenders and the Required Lenders (in their sole and absolute discretion).

1.1.4. Term Loan Notes. The indebtedness under the Term Loan Facility and the corresponding (joint and several) obligation of Borrowers to repay each Term Lender with interest in accordance with the terms hereof will be evidenced by one or more Term Loan Notes (as amended, restated, replaced, supplemented, extended or renewed from time to time, each, a "Term Loan Note"; collectively, the "Term Loan Notes") payable to the order of each Term Lender. The outstanding indebtedness evidenced by the Term Loan Notes will be due and payable in full on the Term Loan Maturity Date. The aggregate stated principal amount of the Term Loan Notes will be the Term Loan Commitment established as of the Closing Date pursuant to Section 1.3; provided, however, that the maximum liability under such Term Loan Notes will be limited at all times to the actual amount of indebtedness (including principal, interest, fees, expenses and indemnities) then outstanding under the Term Loan Facility. Each Term Lender is authorized to note or endorse the date and amount of each Advance and each payment under the Term Loan Facility on a schedule annexed to and constituting a part of the Term Loan Notes. Such notations or endorsements (if made) will constitute prima facie evidence of the information noted or endorsed on such schedule, but the absence of any such notation

or endorsement will not limit or otherwise affect the obligations or liabilities of Borrowers thereunder and hereunder.

1.1.5. Interest. Interest under the Term Loan Facility (and with respect to any other amounts advanced to or on behalf of Borrowers or otherwise outstanding under the Loan Documents) will be determined and imposed in accordance with the following provisions (and, as applicable, Sections 1.5 and 1.7):

1.1.5.1. Reserved.

1.1.5.2. Establishment of Portions. For purposes of determining interest, Borrowers may designate and subdivide the outstanding balance under the Term Loan Facility (including any other amounts advanced to or on behalf of Borrowers under the Loan Documents) into a maximum of 6 Portions at an Adjusted LIBO Rate and 1 Portion at a Prime Rate (inclusive of the number of Portions permitted under the Line of Credit Facility). No Portion accruing interest at an Adjusted LIBO Rate may be less than \$500,000, and all Portions under the Term Loan Facility collectively must total the outstanding balance under the Term Loan Facility.

1.1.5.3. Interest Rate Determination. The outstanding principal balance under each Portion under the Term Loan Facility will bear interest (computed daily until paid in immediately available funds, whether prior to or after the Term Loan Maturity Date) at the applicable Rate Index (as determined in accordance with Section 1.1.5.4) plus the applicable Rate Margin (as determined in accordance with Section 1.1.5.5). If the Prime Rate is the applicable Rate Index for a Portion, then the interest rate on such Portion will change when and as the Prime Rate or Rate Margin changes; and if an Adjusted LIBO Rate is the applicable Rate Index for a Portion, then the interest rate on such Portion will be established on the first day of each Interest Period for such Portion and will not change during such Interest Period (except as otherwise permitted under Section 1.1.5). Notwithstanding the foregoing, the applicable interest rate for the outstanding balance under the Term Loan Facility from the Closing Date until the first date on which the Rate Index or Rate Margin may be changed will be 10.76% per annum (i.e., the Adjusted LIBO Rate applicable for a 3-month period as of the Closing Date (6.76%) plus a Rate Margin of 4.0% per annum).

1.1.5.4. Selection of Rate Index. The applicable Rate Index for each Portion under the Term Loan Facility will be either the Prime Rate or an Adjusted LIBO Rate. The applicable Rate Index for each Portion may be changed by Borrowers as of the first calendar day after the end of the applicable Interest Period for such Portion. At least 3 Business Days (but not more than 10 Business Days) before any day on which the Rate Index may be changed, Borrowers must notify Administrative Agent in writing of (a) the dollar amount of each Portion (if more than one exists) and (b) the selected Rate Index for each Portion during the subsequent rate period (including, if applicable, the selected length of the Interest Period for balances accruing interest at an Adjusted LIBO Rate). If Administrative Agent does not timely receive such written notification as to any Portion, then the then-current Rate Index will be the applicable Rate Index for the outstanding balance of such unspecified Portion during the subsequent Interest Period.

1.1.5.5. Applicable Rate Margins. From the Closing Date through the date after December 31, 2000 on which Administrative Agent receives the first periodic compliance

certificate and consolidated financial statements delivered in accordance with Section 4.2 that provides a certified calculation of the Leverage Ratio (the "Term Facility Fixed Rate Margin Period"), the Rate Margin applicable to the Term Loan Facility will be 4.0% for Portions accruing interest at an Adjusted LIBO Rate and 2.5% for Portions accruing interest at the Prime Rate. Thereafter, the Rate Margin will be based upon the Leverage Ratio of (a) Funded Debt as of the date of establishment of such Rate Margin to (b) TTM-OCF as of the last day of the fiscal quarter reflected on the most recent quarterly financial statements delivered to Administrative Agent in accordance with Section 4.2, and will be determined according to the following schedule:

| LIBO Margin | Leverage Ratio | Prime Rate | Adjusted |
|----------------|----------------|------------|----------|
| | | Margin | Rate |
| -- | ----- | ----- | ----- |
| | <2.5 | 2.00% | 3.50% |
| | >2.5 | 2.50% | 4.00% |
| | - | | |

The Rate Margin applicable to the Term Loan Facility will be established on the calendar day immediately following the end of the Term Facility Fixed Rate Margin Period and thereafter will be established as of the first calendar day of each Interest Period after the date that Administrative Agent receives the most recent periodic compliance certificate and financial statements delivered in accordance with Section 4.2. Even though the pricing schedule above may contemplate Rate Margins for Leverage Ratios in excess of the Leverage Ratios from time to time permitted under Section 4.1: (1) the existence of such pricing in the above schedule (or the effectiveness thereof) does not amend any of the requirements under Section 4.1 or waive any Default or Event of Default caused by any non-compliance therewith from time to time and (2) Administrative Agent and Lenders may nevertheless exercise from time to time during the occurrence of an Event of Default any and all rights and remedies that are permitted by any Loan Document or applicable law.

1.1.5.6. Calculation of Interest. Interest under the Term Loan Facility will be calculated, accrued, imposed and payable on the basis of a 360-day year for the actual number of days elapsed. Interest will begin to accrue on any amounts advanced to or on behalf of Borrowers under the Loan Documents on and as of the date such funds are advanced.

1.1.5.7. Special LIBO Rate Provisions. The following provisions apply with respect to Adjusted LIBO Rates (notwithstanding any other provision hereof).

a. Change in Adjusted LIBO Rate. Any Adjusted LIBO Rate may be prospectively adjusted by a particular Lender from time to time to account for any additional or increased cost of maintaining any necessary reserves for Eurodollar deposits (including any increase in the Reserve Percentage) or any increased costs due to changes in the applicable law occurring subsequent to the commencement of the then-applicable Interest Period. Such Lender will give Administrative Agent notice of any such determination and adjustment within a reasonable period of time thereafter. Upon receipt of such notice, Administrative Agent will provide a copy thereof to Borrowers, and (upon written request) such Lender will furnish a statement to Administrative Agent and Borrowers setting forth the basis and the method for determining the amount of such adjustment. A determination by any Lender hereunder will be conclusive absent manifest error. If any Lender provides any such notice of adjustment, then Borrowers may elect to change the then-applicable Rate

Index (using the same Rate Margin category) to the Prime Rate for any Portion then subject to an Adjusted LIBO Rate. Such election to change the Rate Index must be made by providing Administrative Agent written notice thereof at any time within 10 Business Days after receipt of such notice of adjustment (notwithstanding any restriction hereunder limiting Rate Index changes to certain dates, but subject to the requirement to pay all associated costs therewith). Upon Administrative Agent's receipt of any such written election, the identified Portion will thereupon begin to accrue interest at the Prime Rate plus the Rate Margin (as applicable for the same Leverage Ratio as previously was applicable for the Adjusted LIBO Rate) for the remainder of the then-current Interest Period for such Portion.

b. Unavailability of Eurodollar Funds. An Adjusted LIBO Rate will not be available for the Term Loan Facility if a particular Lender at any time determines or reasonably believes that (1) Eurodollar deposits equal to the amount of principal under the Term Loan Facility for the applicable Interest Period are unavailable, or (2) an Adjusted LIBO Rate will not adequately and fairly reflect the cost of maintaining balances under the Term Loan Facility, or (3) by reason of circumstances affecting Eurodollar markets, adequate and reasonable means do not then exist for ascertaining an Adjusted LIBO Rate. Such Lender will give Administrative Agent notice of any such determination and adjustment within a reasonable period of time thereafter. Upon receipt of such notice, Administrative Agent will provide a copy thereof to Borrowers, and (upon written request) such Lender will furnish to Administrative Agent and Borrowers a statement setting forth the basis for such determination or reasonable belief. A determination or belief by any Lender hereunder will be conclusive absent manifest error.

c. Illegality. An Adjusted LIBO Rate also will not be available under the Term Loan Facility if a particular Lender at any time determines or reasonably believes that it is unlawful or impossible to fund or maintain sufficient Eurodollar liabilities for the Term Loan Facility under an Adjusted LIBO Rate. Such Lender will give Administrative Agent notice of any such determination and adjustment within a reasonable period of time thereafter. Upon receipt of such notice, Administrative Agent will provide a copy thereof to Borrowers, and (upon written request) such Lender will furnish to Administrative Agent and Borrowers a statement setting forth the basis for such determination or reasonable belief. A determination or belief by any Lender hereunder will be conclusive absent manifest error.

d. Continuance of a Default. An Adjusted LIBO Rate, unless Required Lenders otherwise consent, also will not be available under the Term Loan Facility during the existence of any Default or Event of Default under the Loan Documents.

e. Alternative Rate. During the occurrence of any event described in either Clauses "b," "c" or "d" of this Subsection, each Term Lender's obligation hereunder to fund or maintain balances under an Adjusted LIBO Rate will be suspended, and during such period, the outstanding balance under the Term Loan Facility will bear interest at the Prime Rate plus the appropriate Rate Margin (determined in accordance with Section 1.1.5.5).

1.1.6. Repayment and Prepayment. Each Borrower (jointly and severally) hereby promises to pay Administrative Agent (for the ratable benefit of the Term Lenders) the aggregate

indebtedness under the Term Loan Facility (and other Loan Documents) in accordance with the following provisions (and, as applicable, Sections 1.3, 1.5 and 1.7):

1.1.6.1. Interest Payments. Interest accrued under the Term Loan Facility is due and payable monthly in arrears on the last calendar day of each month and also, at the option of the Term Lenders, on the last calendar day of each Interest Period for any Portion accruing interest at an Adjusted LIBO Rate. Such payments shall commence on the first such date after the Closing Date. Upon prior written notice of at least 30 calendar days from Administrative Agent to Borrowers, Administrative Agent (with the consent of the Term Lenders, but not more than once prior to the Term Loan Maturity Date) may change the date during a month on which such payments are due and payable.

1.1.6.2. Principal Payments. On the last calendar day of each fiscal quarter, COMMENCING AS OF SEPTEMBER 30, 2001, a payment of principal equal to \$1,250,000.00 of the principal balance outstanding under the Term Loan Facility is due and payable in its entirety. Upon prior written notice of at least 180 calendar days from Administrative Agent to Borrowers, Administrative Agent (with the consent of the Term Lenders, but not more than once prior to the Term Loan Maturity Date) may change the date during a quarter on which such payments are due and payable.

1.1.6.3. Reserved.

1.1.6.4. Payments at Maturity. The outstanding indebtedness under the Term Loan Facility (including all principal, interest, fees, expenses and indemnities) is due and payable in its entirety on the Term Loan Maturity Date.

1.1.6.5. Prepayments.

a. Voluntary Prepayments. At any time, upon prior written notice to Administrative Agent of at least 5 Business Days, the outstanding principal balance under the Term Loan Facility may be prepaid in whole or in part. In connection with any such voluntary prepayment prior to August 31, 2001, and in addition to any amounts due under Section 1.5.4, Borrowers shall concurrently therewith pay Administrative Agent (for the ratable benefit of the Term Lenders) a prepayment fee in the amount of 2% of such prepayment. In connection with any such voluntary prepayment on or after August 31, 2001 but prior to August 31, 2002, and in addition to any amounts due under Section 1.5.4, Borrowers shall concurrently therewith pay Administrative Agent (for the ratable benefit of the Term Lenders) a prepayment fee in the amount of 1% of such prepayment. As of and after August 31, 2002, Borrowers may make such prepayments without premium or penalty except as provided in Section 1.5.4. Any voluntary partial prepayment must be in an amount of not less than \$500,000 or in multiples of \$10,000 in excess thereof.

b. Mandatory Prepayments -- Excessive Balance. If the outstanding indebtedness under the Term Loan Facility at any time exceeds the Term Loan Commitment as determined in accordance with Section 1.3, then such excess amount outstanding must be re-paid to Administrative Agent in its entirety (for the ratable benefit of the Term Lenders)

immediately upon the earlier of (1) awareness by Borrowers of the advance or incurrence thereof or (2) demand by Administrative Agent for payment thereof.

c. Mandatory Prepayments -- Asset Sales. If Borrowers collectively sell, lease, license on an exclusive basis (without retaining Borrowers' absolute right to use on a royalty-free basis), transfer or otherwise dispose of any assets (other than inventory or other assets either sold in the ordinary course of business with the proceeds thereof reinvested within 180 calendar days thereafter in similar or other tangible assets or sold to another Borrower) exceeding an aggregate fair market value of \$2,500,000 in any 12 consecutive calendar months, then a prepayment must be immediately made on the outstanding indebtedness under the Term Loan Facility, unless the Term Lenders otherwise consent. The amount of any such mandatory prepayment (inclusive of the prepayment required under the Line of Credit Facility as set forth in Section 1.2.6.5.c, which amounts shall be ratably allocated among the Facilities based upon the then-current outstanding balances under such Facilities) will be the cash proceeds of any such asset dispositions (or, with respect to any non-cash proceeds, the cash proceeds thereof as and when received by a Borrower) net of (1) reasonable commissions and expenses actually paid to unrelated third parties in connection with such transactions and (2) taxes payable as a direct result of such transactions (as such taxes are estimated and certified to Administrative Agent by an acceptable certified public accountant or Borrowers' chief financial officer).

d. Mandatory Prepayments - Maximum Outstandings During Event of Default. Upon the occurrence and during the continuance of any Event of Default, unless the Lenders otherwise consent, a prepayment must be made immediately and from time to time on the outstanding indebtedness under the Loan Documents to the extent that the aggregate outstanding indebtedness of Borrowers under the Loan Documents exceeds the sum of the following: (i) 100% of the aggregate accounts receivable of Borrowers for the provision of telecommunications services to unrelated third party Subscribers that are 60 calendar days or less past the initial due date therefor (including unbilled usage or accounts receivable that are less than 30 days old) and (ii) deposits of immediately available unencumbered funds held in accounts that are legally titled and beneficially owned solely by one or more Borrowers and/or Guarantor and that are encumbered with a first priority lien in favor of Administrative Agent (for the ratable benefit of Lenders) pursuant to a security agreement and a control agreement that are in form and substance acceptable to Administrative Agent (in its commercially reasonable discretion). Any such prepayment by Borrowers shall be allocated ratably among the Facilities and Lenders based upon the then-current outstanding balances under such Facilities.

e. In General. Any prepayments under the Term Loan Facility must include all accrued but unpaid interest under the Term Loan Facility allocable to the amount prepaid through the date of such prepayment.

1.1.6.6. Availability for Reborrowing. Principal amounts repaid or prepaid under the Term Loan Facility prior to the Term Loan Maturity Date will not be available for reborrowing hereunder. ----

1.2. Line of Credit Facility.

1.2.1. Establishment of Credit Facility. From and after the Line Effective Date, but subject to the terms and conditions of and in reliance upon the representations and warranties in the Loan Documents, each Line Lender (severally and on a Pro Rata basis with the other Line Lenders) will lend funds to Borrowers on a senior secured basis through Advances from time to time in an aggregate principal amount advanced not to exceed the Available Credit Portion (as determined in accordance with Section 1.3).

1.2.2. Facility Maturity. The Line of Credit Facility will mature on June 30, 2001 (as may be extended from time to time as set forth in this Section 1.2.2 or otherwise in the sole and absolute discretion of the Line Lenders, "Line of Credit Maturity Date"). Notwithstanding the foregoing, Borrowers (upon delivery of written notice to Administrative Agent at any time prior to the then effective Line of Credit Maturity Date) shall be entitled (a) to extend any such Line of Credit Maturity Date from time to time for additional successive periods not to exceed 364 calendar days from the date of such notice but in no event beyond June 30, 2003 and/or (b) to extend the then effective Line of Credit Maturity Date until June 30, 2003 upon delivery to Administrative Agent of written evidence satisfactory to Administrative Agent that Borrowers have obtained all necessary regulatory approvals (in final, non-appealable form) for the incurrence of indebtedness as set forth in this Agreement and having a term with such a requested Line of Credit Maturity Date.

1.2.3. Use of Proceeds. The funds advanced under this Line of Credit Facility may be used exclusively as follows:

a. To fund the purchase of specific property, plant, equipment and other capital expenditures as separately identified to the Line Lenders concurrent with any such Advance of funds, and ---

b. To fund marketing activities, working capital, and other legitimate corporate expenditures of Borrowers, and ---

c. To pay dividends to TALK.COM INC. from time to time if and to the extent permitted under Section 5.10, and

d. The balance of the Line of Credit Commitment (if any) to pay (i) for fees and expenses associated with consummating and documenting the transactions contemplated by this Agreement, and (ii) for such other purposes as specifically authorized hereunder or in writing by the Line Lenders and Required Lenders (in their sole and absolute discretion).

1.2.4. Line of Credit Notes. The indebtedness under the Line of Credit Facility and the corresponding (joint and several) obligation of Borrowers to repay each Line Lender with interest in accordance with the terms hereof will be evidenced by one or more Line of Credit Notes (as amended, restated, replaced, supplemented, extended or renewed from time to time, each, a "Line of Credit Note"; collectively, the "Line of Credit Notes") payable to the order of each Line Lender. The outstanding indebtedness evidenced by the Line of Credit Notes will be due and payable in full on the Line of Credit Maturity Date. The aggregate stated principal amount of the Line of Credit Notes will be the Line of Credit Commitment established pursuant to Section 1.3; provided, however, that the maximum liability under such Line of Credit Notes will be limited at all times to the actual amount of

indebtedness (including principal, interest, fees, expenses and indemnities) then outstanding under the Line of Credit Facility. Each Line Lender is authorized to note or endorse the date and amount of each Advance and each payment under the Line of Credit Facility on a schedule annexed to and constituting a part of the Line of Credit Notes. Such notations or endorsements, if made, will constitute prima facie evidence of the information noted or endorsed on such schedule, but the absence of any such notation or endorsement will not limit or otherwise affect the obligations or liabilities of Borrowers thereunder and hereunder.

1.2.5. Interest. Interest under the Line of Credit Facility (and with respect to any other amounts advanced to or on behalf of Borrowers or otherwise outstanding under the Loan Documents) will be determined and imposed in accordance with the following provisions (and, as applicable, Sections 1.5 and 1.7):

1.2.5.1. Reserved.

1.2.5.2. Establishment of Portions. For purposes of determining interest, Borrowers may designate and subdivide the outstanding balance under the Line of Credit Facility (including any other amounts advanced to or on behalf of Borrowers under the Loan Documents) into a maximum of 6 Portions at an Adjusted LIBO Rate and 1 Portion at a Prime Rate (inclusive of the number of Portions permitted under the Term Loan Facility). No Portion accruing interest at an Adjusted LIBO Rate may be less than \$500,000, and all Portions under the Line of Credit Facility collectively must total the outstanding balance under the Line of Credit Facility.

1.2.5.3. Interest Rate Determination. The outstanding principal balance under each Portion of the Line of Credit Facility will bear interest (computed daily until paid in immediately available funds, whether prior to or after the Line of Credit Maturity Date) at the applicable Rate Index (as determined in accordance with Section 1.2.5.4) plus the applicable Rate Margin (as determined in accordance with Section 1.2.5.5). If the Prime Rate is the applicable Rate Index for a Portion, then the interest rate on such Portion will change when and as the Prime Rate or Rate Margin changes; and if an Adjusted LIBO Rate is the applicable Rate Index for a Portion, then the interest rate on such Portion will be established on the first day of each Interest Period for such Portion and will not change during such Interest Period (except as otherwise permitted under Section 1.2.5).

1.2.5.4. Selection of Rate Index. The applicable Rate Index for each Portion under the Line of Credit Facility will be either the Prime Rate or an Adjusted LIBO Rate. The applicable Rate Index for each Portion may be changed by Borrowers as of the first calendar day after the end of the applicable Interest Period for such Portion. At least 3 Business Days (but not more than 10 Business Days) before any day on which the Rate Index may be changed, Borrowers must notify Administrative Agent in writing of (a) the dollar amount of each Portion (if more than one exists) and (b) the selected Rate Index for each Portion during the subsequent rate period (including, if applicable, the selected length of the Interest Period for balances accruing interest at an Adjusted LIBO Rate). If Administrative Agent does not timely receive such written notification as to any Portion, then the then-current Rate Index will be the applicable Rate Index for the outstanding balance of such unspecified Portion during the subsequent Interest Period. With respect to the proceeds of each Advance under the Line of Credit Facility, unless Borrowers request a particular

Rate Index at the time of such Advance, then the Prime Rate shall be the applicable Rate Index from the corresponding Settlement Date for such Advance until the next date on which the Rate Index may be changed hereunder.

1.2.5.5. Applicable Rate Margins. From the date of the initial Advance under the Line of Credit Facility through the date after December 31, 2000 on which Administrative Agent receives the first periodic compliance certificate and consolidated financial statements delivered in accordance with Section 4.2 that provides a certified calculation of the Leverage Ratio (the "Line Facility Fixed Rate Margin Period"), the Rate Margin applicable to the Line of Credit Facility will be 4.0% for Portions accruing interest at an Adjusted LIBO Rate and 2.5% for Portions accruing interest at the Prime Rate. Thereafter, the Rate Margin will be based upon the Leverage Ratio of (a) Funded Debt as of the date of establishment of such Rate Margin to (b) TTM-OCF as of the last day of the fiscal quarter reflected on the most recent quarterly financial statements delivered to Administrative Agent in accordance with Section 4.2, and will be determined according to the following schedule:

| LIBO Margin | Leverage Ratio | Prime Rate | Adjusted |
|----------------|----------------|------------|----------|
| | | Margin | Rate |
| -- | ----- | ----- | ----- |
| | <2.5 | 2.00% | 3.50% |
| | >2.5 | 2.50% | 4.00% |
| | - | | |

The Rate Margin applicable to the Line of Credit Facility will be established on the calendar day immediately following the end of the Line Facility Fixed Rate Margin Period and thereafter will be established as of the first calendar day of each Interest Period after the date that Administrative Agent receives the most recent periodic compliance certificate and financial statements delivered in accordance with Section 4.2. Upon the funding of any Advance under this Agreement after the Closing Date in excess of \$500,000, then Lenders (in the sole and absolute discretion of Required Lenders) may elect to prospectively adjust the Rate Margin applicable to each Portion to reflect the additional amount of Funded Debt thereby outstanding. Even though the pricing schedule above may contemplate Rate Margins for Leverage Ratios in excess of the Leverage Ratios from time to time permitted under Section 4.1: (1) the existence of such pricing in the above schedule (or the effectiveness thereof) does not amend any of the requirements under Section 4.1 or waive any Default or Event of Default caused by any non-compliance therewith from time to time and (2) Administrative Agent and Lenders may nevertheless exercise from time to time during the occurrence of an Event of Default any and all rights and remedies that are permitted by any Loan Document or applicable law.

1.2.5.6. Calculation of Interest. Interest under the Line of Credit Facility will be calculated, accrued, imposed and payable on the basis of a 360-day year for the actual number of days elapsed. Interest will begin to accrue on any amounts advanced to or on behalf of Borrowers under the Loan Documents on and as of the date such funds are advanced.

1.2.5.7. Special LIBO Rate Provisions. The following provisions apply with respect to Adjusted LIBO Rates (notwithstanding any other provision hereof).

a. Change in Adjusted LIBO Rate. Any Adjusted LIBO Rate may be prospectively adjusted by a particular Lender from time to time to account for any additional or increased cost of maintaining any necessary reserves for Eurodollar deposits (including any increase in the Reserve Percentage) or any increased costs due to changes in the applicable law occurring subsequent to the commencement of the then-applicable Interest Period. Such Lender will give Administrative Agent notice of any such determination and adjustment within a reasonable period of time thereafter. Upon receipt of such notice, Administrative Agent will provide a copy thereof to Borrowers, and (upon written request) such Lender will furnish a statement to Administrative Agent and Borrowers setting forth the basis and the method for determining the amount of such adjustment. A determination by any Lender hereunder will be conclusive absent manifest error. If any Lender provides any such notice of adjustment, then Borrowers may elect to change the then-applicable Rate Index (using the same Rate Margin category) to the Prime Rate for any Portion then subject to an Adjusted LIBO Rate. Such election to change the Rate Index must be made by providing Administrative Agent written notice thereof at any time within 10 Business Days after receipt of such notice of adjustment (notwithstanding any restriction hereunder limiting Rate Index changes to certain dates, but subject to the requirement to pay all associated costs therewith). Upon Administrative Agent's receipt of any such written election, the identified Portion will thereupon begin to accrue interest at the Prime Rate plus the Rate Margin (as applicable for the same Leverage Ratio as previously was applicable for the Adjusted LIBO Rate) for the remainder of the then-current Interest Period for such Portion.

b. Unavailability of Eurodollar Funds. An Adjusted LIBO Rate will not be available for the Line of Credit Facility if a particular Lender at any time determines or reasonably believes that (1) Eurodollar deposits equal to the amount of principal under the Line of Credit Facility for the applicable Interest Period are unavailable, or (2) an Adjusted LIBO Rate will not adequately and fairly reflect the cost of maintaining balances under the Line of Credit Facility, or (3) by reason of circumstances affecting Eurodollar markets, adequate and reasonable means do not then exist for ascertaining an Adjusted LIBO Rate. Such Lender will give Administrative Agent notice of any such determination and adjustment within a reasonable period of time thereafter. Upon receipt of such notice, Administrative Agent will provide a copy thereof to Borrowers, and (upon written request) such Lender will furnish to Administrative Agent and Borrowers a statement setting forth the basis for such determination or reasonable belief. A determination or belief by any Lender hereunder will be conclusive absent manifest error.

c. Illegality. An Adjusted LIBO Rate also will not be available under the Line of Credit Facility if a particular Lender at any time determines or reasonably believes that it is unlawful or impossible to fund or maintain sufficient Eurodollar liabilities for the Line of Credit Facility under an Adjusted LIBO Rate. Such Lender will give Administrative Agent notice of any such determination and adjustment within a reasonable period of time thereafter. Upon receipt of such notice, Administrative Agent will provide a copy thereof to Borrowers, and (upon written request) such Lender will furnish to Administrative Agent and Borrowers a statement setting forth the basis for such determination or reasonable belief. A determination or belief by any Lender hereunder will be conclusive absent manifest error.

d. Continuance of a Default. An Adjusted LIBO Rate, unless Required Lenders otherwise consent, also will not be available under the Line of Credit Facility during the existence of any Default or Event of Default under the Loan Documents.

e. Alternative Rate. During the occurrence of any event described in either Clauses "b," "c" or "d" of this Subsection, each Line Lender's obligation hereunder to fund or maintain balances under an Adjusted LIBO Rate will be suspended, and during such period, the outstanding balance under the Line of Credit Facility will bear interest at the Prime Rate plus the appropriate Rate Margin (determined in accordance with Section 1.2.5.5).

1.2.6. Repayment and Prepayment. Each Borrower (jointly and severally) hereby promises to pay Administrative Agent (for the ratable benefit of the Line Lenders, except to the extent otherwise agreed among the Line Lenders and Administrative Agent) the aggregate indebtedness under the Line of Credit Facility (and other Loan Documents) in accordance with the following provisions (and, as applicable, Sections 1.3, 1.5 and 1.7):

1.2.6.1. Interest Payments. Interest accrued under the Line of Credit Facility is due and payable monthly in arrears on the last calendar day of each month and also, at the option of the Line Lenders, on the last calendar day of each Interest Period for any Portion accruing interest at an Adjusted LIBO Rate. Such payments shall commence on the first such date after the initial Advance under the Line of Credit Facility. Upon prior written notice of at least 30 calendar days from Administrative Agent to Borrowers, Administrative Agent (with the consent of the Line Lenders, but not more than once prior to the Line of Credit Maturity Date) may change the date during a month on which such payments are due and payable.

1.2.6.2. Reserved.

1.2.6.3. Reserved.

1.2.6.4. Payments at Maturity. The outstanding indebtedness under the Line of Credit Facility (including all principal, interest, fees, expenses and indemnities) is due and payable in its entirety on the Line of Credit Maturity Date.

1.2.6.5. Prepayments.

a. Voluntary Prepayments. At any time, upon prior written notice to Administrative Agent of at least 3 Business Days, the outstanding principal balance under the Line of Credit Facility may be prepaid in whole or in part without premium or penalty, except as provided in Section 1.5.4. Notwithstanding the foregoing, Borrowers may not make more than 4 such prepayments under the Line of Credit Facility per calendar month without the prior consent of the Administrative Agent and the Line Lenders. Any voluntary partial prepayment must be in an amount of not less than \$500,000 or in multiples of \$10,000 in excess thereof.

b. Mandatory Prepayments -- Excessive Balance. If the outstanding indebtedness under the Line of Credit Facility at any time exceeds the Available Credit Portion as determined in accordance with Section 1.3, then such excess amount outstanding must be re-paid to Administrative Agent (for the ratable benefit of the Line Lenders) in its entirety

immediately upon the earlier of (1) awareness by Borrowers of the advance or incurrence thereof or (2) demand by Administrative Agent for payment thereof.

c. Mandatory Prepayments -- Asset Sales. If Borrowers collectively sell, lease, license on an exclusive basis (without retaining Borrowers' absolute right to use on a royalty-free basis), transfer or otherwise dispose of any assets (other than inventory or other assets either sold in the ordinary course of business with the proceeds thereof reinvested within 180 calendar days thereafter in similar or other tangible assets or sold to another Borrower) exceeding an aggregate fair market value of \$2,500,000 in any 12 consecutive calendar months, then a prepayment must be immediately made on the outstanding indebtedness under the Line of Credit Facility, unless the Line Lenders otherwise consent. The amount of any such mandatory prepayment (inclusive of the prepayment required under the Term Loan Facility as set forth in Section 1.1.6.5.c, which amounts shall be ratably allocated among the Facilities based upon the then-current outstanding balances under such Facilities) will be the cash proceeds of any such asset dispositions (or, with respect to any non-cash proceeds, the cash proceeds thereof as and when received by a Borrower) net of (1) reasonable commissions and expenses actually paid to unrelated third parties in connection with such transactions and (2) taxes payable as a direct result of such transactions (as such taxes are estimated and certified to Administrative Agent by an acceptable certified public accountant or Borrowers' chief financial officer).

d. Mandatory Prepayments - Maximum Outstandings During Event of Default. Upon the occurrence and during the continuance of any Event of Default, unless the Lenders otherwise consent, a prepayment must be made immediately and from time to time on the outstanding indebtedness under the Loan Documents to the extent that the aggregate outstanding indebtedness of Borrowers under the Loan Documents exceeds the sum of the following: (i) 100% of the aggregate accounts receivable of Borrowers for the provision of telecommunications services to unrelated third party Subscribers that are 60 calendar days or less past the initial due date therefore (including unbilled usage or accounts receivable that are less than 30 days old) and (ii) deposits of immediately available unencumbered funds held in accounts that are legally titled and beneficially owned solely by one or more Borrowers and/or Guarantor and that are encumbered with a first priority lien in favor of Administrative Agent (for the ratable benefit of Lenders) pursuant to a security agreement and a control agreement that are in form and substance acceptable to Administrative Agent (in its commercially reasonable discretion). Any such prepayment by Borrowers shall be allocated ratably among the Facilities and Lenders based upon the then-current outstanding balances under such Facilities.

e. In General. Any prepayments under the Line of Credit Facility must include all accrued but unpaid interest under the Line of Credit Facility allocable to the amount prepaid through the date of such prepayment.

1.2.6.6. Availability for Reborrowing. Principal amounts paid under the Line of Credit Facility prior to the Line of Credit Maturity Date will be available for re-borrowing in accordance with the terms hereof up to the Available Credit Portion.

1.3. Determination of Commitment Amounts and Available Credit Portion.

1.3.1. Initial Commitments. Upon the execution of this Agreement and satisfaction or written waiver of the conditions precedent set forth in Section 2.1, the Term Loan Commitment established hereunder will be \$20 million ("Term Loan Commitment"). In addition, upon the execution of this Agreement and satisfaction or written waiver of the conditions precedent set forth in Sections 2.1 and 2.2, then the Line of Credit Commitment established hereunder will be \$30 million ("Line of Credit Commitment").

1.3.2. Available Credit Portion for Line of Credit. Notwithstanding the foregoing, the maximum amount of credit available at any time under the Line of Credit Facility may not exceed the amount resulting from the following formula:

a. The Line of Credit Commitment,

b. Minus, the then-aggregate amount of all prepayments relating to asset sales required to have been paid since the Closing Date under Section 1.2.6.5.c, unless (i) such aggregate amount does not exceed \$10 million or (ii) the Line Lenders otherwise consent to such amount not being excluded, and

c. Minus the aggregate amount of all voluntary commitment reductions requested under Section 1.3.3.

The amount resulting from the equation under categories "a" through "c" above is referred to herein as the "Available Credit Portion"; provided, however, that prior to the Line Effective Date, the "Available Credit Portion" shall be \$0.00. On the effective date of any such reduction in the Available Credit Portion, a prepayment must be made to the extent required under Section 1.2.6.5.b.

1.3.3. Voluntary Reduction of Commitment. Upon giving Administrative Agent and each Line Lender prior written notice of at least 5 Business Days, Borrowers at any time and from time to time may reduce the Line of Credit Commitment in multiples of \$500,000. On the effective date of any such reduction, a prepayment must be made to the extent required under Section 1.2.6.5.b. Any such reduction in the Line of Credit Commitment will be permanent, and such Commitment cannot thereafter be increased without the written consent of Administrative Agent and Lenders.

1.4. Advances.

1.4.1. Requesting Advances. To request an Advance (other than the initial Advances on the Closing Date) under the Line of Credit Facility, Borrowers must give Administrative Agent written notice (or verbal notice by telephone with immediate written confirmation to follow) at least 3 Business Days (but not more than 10 Business Days) prior to the requested Settlement Date for such Advance (such notice, an "Advance Request"). Such Advance Request, together with certain certifications, must be substantially in the form of Exhibit 1.4.1 or such other form as Administrative Agent may reasonably request. Each Advance under the Line of Credit Facility pursuant to an Advance Request (unless Administrative Agent and Line Lenders otherwise consent) must be in an amount of at least \$500,000 and may not be greater than the un-borrowed balance of the Available Credit Portion. Unless Administrative Agent and Line Lenders otherwise consent, Borrowers may only request up to 4 Advances per calendar month after the Closing Date.

1.4.2. Funding Advances. Subject to the satisfaction of and compliance with the terms and conditions hereof (including, as applicable, the conditions precedent specified in Article 2), Administrative Agent will make each Lender's Pro Rata portion of each requested Advance (to the extent such funds are received by Administrative Agent) available by such means as Administrative Agent may consider reasonable. At the written request and expense of Borrowers, Administrative Agent will wire transfer all or any portion of an Advance in accordance with such written instructions therefor. By executing this Agreement, each Borrower (jointly and severally) hereby requests Administrative Agent and each Lender to make and fund the initial Advances (to the extent that Administrative Agent receives each Lender's Pro Rata portion of the initial Advances) in accordance with the Advance Request separately delivered to Administrative Agent as of the Closing Date.

1.4.3. Indemnification for Revocation or Failure to Satisfy Conditions. Each Borrower (jointly and severally) will indemnify each Lender and Administrative Agent against all losses and costs reasonably incurred by such Lender and/or Administrative Agent as a result of any revocation of any requested Advance or any failure to fulfill the applicable conditions precedent to such Advance on or before the requested Settlement Date specified in an Advance Request. Such indemnification will include (among other things) all losses and costs incurred by reason of the liquidation or reemployment of funds required by such Lender or Administrative Agent to fund the Advance when such Advance, as a result of such failure, is not made on the requested Settlement Date. Such Lender's or Administrative Agent's (as applicable) calculation of such losses and costs will be conclusive absent manifest error.

1.4.4. Obligation to Advance. No Lender will be obligated to make any Advance under the following circumstances: (a) if the principal amount of such Advance plus the aggregate amount outstanding under the applicable Facility would exceed the applicable Commitment or the Available Credit Portion, or (b) during the existence of a Default or an Event of Default hereunder, or (c) if such Advance would cause a Default or Event of Default hereunder, or (d) after the applicable Maturity Date. In addition, neither Administrative Agent nor any Line Lender shall have any obligation or commitment to advance funds under the Line of Credit Facility unless and until the conditions precedent under Sections 2.1 and 2.2 have been satisfied by Borrowers or waived in writing by Administrative Agent (at the direction of Line Lenders).

1.5. Payments in General.

1.5.1. Manner and Place of Payments. All payments of principal, interest, fees, expenses, indemnities and other amounts due under the Loan Documents must be received by Administrative Agent by wire transfer (unless Administrative Agent otherwise consents) in immediately available funds in U.S. dollars (and without any deduction, offset, netting, reservation of rights or counterclaim) on or before Two O'clock (2:00) p.m. Eastern Time ("ET") on the due date therefor at the principal office of Administrative Agent set forth in Notice Section hereof or at such other place as Administrative Agent may designate from time to time.

1.5.2. Special Payment Timing Issues. Whenever any payment to be made under any Loan Document is due on a day that is not a Business Day, then such payment may be made on the next succeeding Business Day, and such extension of time will be included in the computation of

interest under such Loan Document. Any funds received by Administrative Agent after 2:00 p.m. ET on any day will be deemed to be received on the next succeeding Business Day.

1.5.3. Application of Payments. All payments and other funds received by Administrative Agent under the Loan Documents will be applied in the following order: (a) first to the payment of any fees and charges due under the Loan Documents, and (b) then to any obligations for the payment of expenses, costs and indemnities due under the Loan Documents, and (c) then to the payment of interest due and owing under the Loan Documents (pro rata among the Facilities), and (d) then to the principal indebtedness due under the Term Loan Facility, and (e) then to principal outstanding (but not yet due) under the Line of Credit Facility and the Term Loan Facility, and (f) then to any other interest accrued under the Loan Documents. Notwithstanding the foregoing, payments allocable to principal (other than scheduled periodic payments) will be applied as follows: (1) to reduce future scheduled principal payments in the inverse order of maturity and (2) with respect to the application of payments within Clause "(e)", (except to the extent Borrowers otherwise request in writing concurrently with such payment) first to principal balances under the Line of Credit Facility and then to principal balances under the Term Loan Facility.

1.5.4. LIBO Rate Payments Not at End of Interest Period. Upon payment of any amount accruing interest based upon an Adjusted LIBO Rate on any day other than the last day of the corresponding Interest Period (whether such payment is voluntary, mandatory, by demand, acceleration or otherwise), then Borrowers must pay Administrative Agent (for the benefit of Lenders) the greater of (a) \$500 or (b) all costs and losses (including funding costs and any losses associated with the re-deployment of such funds for the balance of such Interest Period) that may arise or be incurred as a result of or in connection with such payment (as such costs and losses may be calculated by Lenders). Upon written request, Lenders (through Administrative Agent) will furnish a statement setting forth the basis for such calculation. A determination or calculation by any Lender hereunder will be conclusive absent manifest error.

1.5.5. Capital Adequacy, Taxes and Other Adjustments. If any Lender determines that (a) the adoption, implementation or interpretation after the Closing Date of any law, treaty, governmental (or quasi-governmental) rule, regulation, guideline, directive, policy or order regarding capital adequacy, reserve requirements, taxes or similar requirements, or (b) compliance by such Lender or any entity controlling or funding the operations of such Lender with any request or directive regarding capital adequacy, reserve requirements, taxes or similar requirements (whether or not having the force of law and whether or not failure to comply therewith would be unlawful) from any central bank, governmental agency, controlling entity, funding source or body having jurisdiction would, in either instance, have the effect of increasing the amount of capital, reserves, taxes (other than income taxes of Administrative Agent or any Lender), funding costs or other funds required to be maintained or paid by such Lender and thereby reducing the rate of return on such Lender's capital as a consequence of its obligations under the Loan Documents, then Borrowers must pay to such Lender additional amounts sufficient to compensate such Lender for such reduction. Such Lender will give Administrative Agent notice of any such determination and payment amount within a reasonable period of time thereafter. Upon receipt of such notice, Administrative Agent will provide a copy thereof to Borrowers, and (upon written request) such Lender will furnish a statement to Administrative Agent and Borrowers setting forth the basis and the method for determining the

amount of such payment. A determination by any Lender hereunder will be conclusive absent manifest error.

1.5.6. Payment of Expenses, Indemnities and Protective Advances. If any funds are advanced or costs are incurred by Administrative Agent or any Lender to or on behalf of Borrowers or otherwise as permitted under the Loan Documents (including as protective advances), other than Advances pursuant to Section 1.4, then such advances or costs must be re-paid to Administrative Agent (to the extent applicable, for the benefit of Lenders) in their entirety immediately upon the earlier of (a) awareness by Borrowers of the advance or incurrence thereof or (b) demand by Administrative Agent for payment thereof.

1.5.7. Payments upon Termination. Notwithstanding any other provision hereof, the entire outstanding indebtedness under each Facility (including all principal, interest, fees, expenses and indemnities) is due and payable in its entirety upon any termination of such Facility, the corresponding Commitment therefor, or this Agreement.

1.5.8. Late Payments. If any payment (of principal, interest, fees, expenses, indemnities or other amounts) due under any Loan Document is not received by Administrative Agent in immediately available funds on or before the 7th calendar day after the due date therefor, then each Borrower (jointly and severally) hereby agrees (to the maximum extent not prohibited by applicable law) to pay to the applicable Lenders (through Administrative Agent and upon Administrative Agent's request) a late payment charge equal to 5% of the amount of such late payment. The late payment charges due under this Section are in addition to any other interest, fees, charges, expenses or indemnities due or impossible under the Loan Documents and/or any other remedies available under the Loan Documents.

1.5.9. Default Interest. During the existence of a Default or an Event of Default hereunder, each Borrower (jointly and severally) hereby agrees (to the maximum extent not prohibited by applicable law) to pay to Lenders (through Administrative Agent and upon Administrative Agent's request but commencing as of the date of occurrence of such Default or Event of Default) interest on any indebtedness outstanding hereunder at the rate of THREE PERCENT (3%) per annum in excess of the rate then otherwise applicable to such indebtedness. Notwithstanding the foregoing, if the relevant Default is under Section 7.1.10, then such rate increase (to the maximum extent not prohibited by applicable law) will occur automatically without any request by Administrative Agent.

1.5.10. Usury Savings Provision. Notwithstanding any provision of any Loan Document, Borrowers (individually and collectively) are not and will not be required to pay interest at a rate or any fee or charge in an amount prohibited by applicable law. If interest or any fee or charge payable on any date would be in a prohibited amount, then such interest, fee or charge will be automatically reduced to the maximum amount that is not prohibited, and any interest, fee or charge for subsequent periods (to the extent not prohibited by applicable law) will be increased accordingly until Administrative Agent and each Lender receives payment of the full amount of each such reduction. To the extent that any prohibited amount is actually received by Administrative Agent or any Lender, then such amount will be automatically deemed to constitute a repayment of principal indebtedness hereunder.

1.6. Release of Security. Upon termination of the Loan Documents in accordance with Section 10.10, then Administrative Agent (at the written request and expense of Borrowers) (i) will release the Obligors and the property serving as Collateral under the Loan Documents (without representation, warranty, recourse, liability or indemnification of any kind by or to Administrative Agent or any Lender), and (ii) will execute and deliver such UCC termination statements, mortgage releases, deed of trust releases, and other documentation and instruments (all in form and substance reasonably acceptable to Administrative Agent) as may be reasonably requested and provided to Administrative Agent to effect such releases and terminations, and (iii) will terminate and cancel all Commitments and all Facilities under the Loan Documents.

1.7. Fees and Other Compensation.

1.7.1. Structuring Fee. On the Closing Date, Borrowers will pay Administrative Agent (for the sole and exclusive benefit of Administrative Agent) a Structuring Fee in the amount of \$100,000, which amount is treated as prepaid non-refundable interest.

1.7.2. Origination Fee for Term Facility. On the Closing Date, Borrowers will pay Administrative Agent (for the ratable benefit of the Term Lenders) an Origination Fee in the amount of \$400,000, which amount is treated as prepaid non-refundable interest.

1.7.3. Origination Fee for Line of Credit Facility. On the Line Effectiveness Notification Date (provided such date occurs prior to March 31, 2001), Borrowers will pay Administrative Agent (for the benefit of itself and the Line Lenders in such proportions as Administrative Agent may determine) an Origination Fee in the amount of \$750,000, which amount is treated as prepaid non-refundable interest. Notwithstanding the foregoing, if Borrowers satisfy the conditions for an Advance under the Line of Credit Facility and a Line Lender breaches its obligation to advance such funds under the Line of Credit Facility in accordance with the terms hereof for a period of more than 5 Business Days after written demand by Borrowers, then such Line Lender shall return to Borrowers its portion of the Origination Fee earned by such Line Lender under this Section 1.7.3. To the extent that such breaching Line Lender did not receive a pro rata portion of the Origination Fee under this Section 1.7.3 because Administrative Agent retained some of the fee, then upon the occurrence of any such uncured breach Administrative Agent shall also return to Borrowers a portion of the Origination Fee retained by Administrative Agent equal to the balance of the actual pro rata portion of the Origination Fee that is represented by such breaching Line Lender's percentage of the actual Commitments under the Line of Credit Facility.

1.7.4. Periodic Unused Fee. Borrowers will pay Administrative Agent (for the ratable benefit of the Line Lenders) a Periodic Unused Fee at the rate of ONE AND ONE-QUARTER OF ONE PERCENT (1.25%) per annum on the average daily un-borrowed portion of the Available Credit Portion under the Line of Credit Facility. Such fee will be calculated by Administrative Agent and will be due and payable monthly in arrears on the last calendar day of each month.

1.7.5. Issuance of Warrants upon Establishment of Line Facility. On the Line of Effectiveness Notification Date (provided such date occurs prior to March 31, 2001), TALK.COM INC. will issue and grant to Administrative Agent (or, to the extent so designated by Administrative Agent at such time, to one or more of the Lenders) warrants exercisable for 300,000 shares of common stock

of TALK.COM INC. (par value \$0.01 per share and as in effect on the Closing Date). Such warrants shall contain customary, commercially reasonable and mutually acceptable terms, conditions, rights and protections and shall be substantially similar to the form thereof attached as Exhibit 1.7. Without limiting the foregoing, such warrants (a) shall be immediately exercisable upon issuance, (b) shall be effective for a period of 7 years from the date of issuance, (c) shall provide for a cashless exercise alternative, and (d) shall have an exercise price equal to 115% of the average closing price of such common stock as reported on the NASDAQ during the 20 consecutive trading sessions ending two trading sessions prior to the Line Effectiveness Notification Date. Such warrants shall be fully earned for all purposes as of the date of issuance. Such warrants shall be treated as additional compensation for the cost and risk incurred associated with underwriting, syndicating and establishing of the Line of Credit Facility, but shall in no way affect or relieve any Borrower or Talk.com Inc. of any of its obligations to fully and timely perform and to repay the entire indebtedness due under the Loan Documents. Notwithstanding the foregoing, if Borrowers satisfy the conditions for an Advance under the Line of Credit Facility and a Line Lender breaches its obligation to advance such funds under the Line of Credit Facility in accordance with the terms hereof for a period of more than 5 Business Days after written demand by Borrowers, then such Line Lender shall return to Borrowers or otherwise forfeit its pro rata portion of the Warrants earned by such Line Lender under this Section 1.7.5. To the extent that such breaching Line Lender did not receive a pro rata portion of the warrants earned under this Section 1.7.5 because Administrative Agent retained some of the warrants, then upon the occurrence of any such uncured breach Administrative Agent shall also return to Borrowers or otherwise forfeit a portion of such warrants retained by Administrative Agent equal to the balance of the actual pro rata portion of the warrants earned under this Section 1.7.5 that is represented by such breaching Line Lender's percentage of the actual Commitments under the Line of Credit Facility.

1.7.6. Issuance of Warrants Associated with EBITDA Shortfall. On the Closing Date, TALK.COM INC. will issue and grant to Lenders (ratably based upon each such Lender's Commitment) warrants exercisable for 300,000 shares of common stock of TALK.COM INC. (par value \$0.01 per share and as in effect on the Closing Date). Such warrants shall have the terms and conditions as set forth in Exhibit 1.7.6. Such warrants shall be treated as additional compensation for the cost and risk incurred associated with underwriting, syndicating and establishing of the Credit Facilities, but shall in no way affect or relieve any Borrower or TALK.COM INC. of any of its obligations to fully and timely perform and to repay the entire indebtedness due under the Loan Documents.

1.7.7. AoL Disbursement Fee. If at any time after the first Advance under the Line of Credit Facility and prior to September 1, 2001, TALK.COM INC. makes any "make whole" or repurchase payment to AoL relating to AoL's stock of TALK.COM INC. under or as described in Article V of the AoL Investment Agreement or under any similar provisions of any related documents, then Borrowers concurrently therewith will pay Administrative Agent (for the ratable benefit of the Lenders) an AoL Disbursement Fee in the amount of \$500,000. If any such payment is made by TALK.COM INC. prior to the first Advance under the Line of Credit Facility, then concurrent with such first Advance, Borrowers shall pay Administrative Agent (for the ratable benefit of the Lenders) the AoL Disbursement Fee as described in the preceding sentence. Notwithstanding the foregoing, the fee required under this Section 1.7.7 shall not apply with respect to make whole payments relating to

warrant shares by TALK.COM INC. under Section 6.5 of the AoL Investment Agreement (as existing as of the Closing Date) that in the aggregate do not exceed \$5 million.

1.7.8. Other Fees. Other fees and charges may be imposed by Administrative Agent or any Lender for services rendered under and in accordance with agreements (other than the Loan Documents) with Administrative Agent or such Lender.

ARTICLE 2: CONDITIONS PRECEDENT

2.1. Closing Conditions. The obligation of Administrative Agent or any Lender to execute and perform under the Loan Documents, and to establish the Facilities, and to fund the Advances are subject to the following conditions precedent (unless and except to the extent expressly waived by Administrative Agent and each Lender in their sole and absolute discretion):

2.1.1. Compliance.

2.1.1.1. Fees and Expenses. Borrowers must have paid (or made acceptable arrangements with Administrative Agent to pay) all fees and expenses due and payable hereunder, including all fees due and payable under Section 1.7 and the reasonable fees and expenses of Administrative Agent's and each Lender's attorneys and in-house documentation personnel with respect to the preparation, negotiation and execution of the Loan Documents.

2.1.1.2. Representations. Each, and all, representations and warranties contained in this Agreement (including those in Article 3) and in each other Loan Document, certificate or other writing delivered to Administrative Agent or any Lender pursuant hereto or thereto on or prior to the Closing Date must be true, correct and complete in all material respects on and as of the Closing Date, except for such deviations disclosed in writing and acceptable to Administrative Agent and each Lender.

2.1.1.3. No Default. There must not be any Default or Event of Default hereunder or any default under any other Loan Document on the Closing Date, and there must not be any such Default or Event of Default occurring as a result of executing or advancing funds under the Loan Documents, except for such defaults disclosed in writing and acceptable to Administrative Agent and each Lender.

2.1.1.4. No Material Change. There must not have been (in Administrative Agent's or any Lender's reasonable opinion) any Material Adverse Change between the date for the most recent financial statements delivered to Administrative Agent and the Closing Date.

2.1.2. Documents. Administrative Agent must have received the following documents, agreements and certificates (together with all exhibits and schedules thereto), each duly executed, in form, substance and amount satisfactory to Administrative Agent and, when applicable, recorded or filed in the appropriate public office:

2.1.2.1. Credit Agreement. This Agreement.

2.1.2.2. Promissory Notes. The Term Loan Notes as described in Section 1.1.4.

2.1.2.3. Security Agreement, Collateral Assignment and Pledge. A master security agreement, collateral assignment and pledge by EACH BORROWER in favor of Administrative Agent granting Administrative Agent (for the benefit of Lenders) a security interest in and collaterally assigning to Administrative Agent (for the benefit of Lenders) all of such grantor's tangible and intangible personal property assets (including fixtures), whether now owned or hereafter acquired, and the proceeds and products thereof, as collateral security for the indebtedness and obligations hereunder, together with all necessary financing statements and termination statements (each as filed), stock certificates and powers executed in blank, waivers and consents, and evidence of any other recordations required by applicable law or by Administrative Agent to perfect such security interests in a manner that will be subject only to Permitted Liens.

2.1.2.4. Intellectual Property Security Agreements. One or more separate intellectual property security agreements by EACH BORROWER in favor of Administrative Agent (for the benefit of Lenders) encumbering all of such grantor's copyrights, patents, trade names, trademarks, service names, service marks and other intellectual property (including any and all applications and licenses therefor), all as now owned or hereafter acquired, and the proceeds and goodwill thereof, together with all appropriate financing statements and termination statements (each as filed), waivers and consents, and any other documents or recordations required by applicable law or by Lender to perfect such interests.

2.1.2.5. Guaranty. A guaranty agreement by TALK.COM INC. in favor of Administrative Agent (for the benefit of lenders) absolutely and unconditionally guaranteeing (a) the payment of all indebtedness hereunder and under the other Loan Documents and (b) the performance of all other obligations hereunder and under the other Loan Documents.

2.1.2.6. Insurance. Current proof of insurance with an indication of loss payee and additional insured endorsements in favor of Administrative Agent with respect to all of the coverages required under Section 4.8. Such proof of insurance must be indicated pursuant to one or more certificates on (a) an ACORD 27 form (3/93) for property-related insurance coverages and (b) a modified version of an ACORD 25-S form (3/93), in each instance permitting reliance by Administrative Agent and requiring cancellation notification.

2.1.2.7. Compliance Certificates. A certificate from an Authorized Officer of each Borrower and Guarantor dated as of the Closing Date and certifying as to compliance with the matters described under Section 2.1.1.

2.1.2.8. Opinions of Counsel. One or more written opinions from legal counsel to Borrowers addressed to Administrative Agent and each Lender and dated as of the Closing Date opining as to such matters as Administrative Agent may reasonably request.

2.1.2.9. Authorization Documents. A certificate of an Authorized Officer of EACH BORROWER and TALK.COM INC. delivering true, accurate and complete versions of (a) its Articles of Incorporation and all amendments thereto, and (b) its Bylaws and all amendments thereto, and (c) the resolutions authorizing its execution, delivery and full performance of the Loan Documents and all other documents, certificates and actions required hereunder or in connection herewith, and (d) an incumbency certificate setting forth its officers (together with the corresponding signatures), and (e) a long-form good standing and qualification certificate (issued within 30 calendar days before the Closing Date) with respect to its jurisdiction of organization and each jurisdiction listed on Schedule 3.1 in which it has substantial operations.

2.1.2.10. Other Documents. Administrative Agent must have received any additional agreements, documents and certificates as Administrative Agent or its counsel may reasonably request.

2.2. Effectiveness of Line of Credit Facility. The obligation of Administrative Agent and each Line Lender to perform under the Line of Credit Facility is subject to the following additional conditions precedent (unless and except to the extent expressly waived by Administrative Agent in its sole and absolute discretion, but with the concurrence of each Line Lender):

2.2.1. Line Effectiveness Notification. Administrative Agent shall have provided Borrowers with written confirmation that the Line of Credit Facility has been syndicated and will become available as set forth in Section 1.2 upon satisfaction by Borrowers or written waiver by Administrative Agent (at the direction of Line Lenders) of the conditions precedent under this Section 2.2.

2.2.2. Promissory Notes. Administrative Agent must have received the Line of Credit Notes as described in Section 1.2.4. Each such Note shall be duly executed, and in form and substance satisfactory to Administrative Agent.

2.2.3. Additional Warrants. Administrative Agent must have received one or more separate warrant agreements by TALK.COM INC. issuing and granting to Administrative Agent (or its designees the warrants as described in Section 1.7.5, together with all underlying warrant certificates and evidence of necessary actions by TALK.COM INC. to authorize and issue such warrants and related warrant shares. Each such document shall be each duly executed, and in form and substance satisfactory to Administrative Agent.

2.2.4. Line of Credit Origination Fee. Borrowers must have paid (or made acceptable arrangements with Administrative Agent to pay) the Line of Credit Origination Fee as described in Section 1.7.3. -----

2.2.5. Other Documents. Administrative Agent must have received such additional documents and certificates as Administrative Agent has determined (in its reasonable judgment) are necessary or appropriate to evidence the effectiveness of the Line of Credit Commitment.

2.3. All Line Advances. The obligation of Administrative Agent to perform and each Line Lender to fund any request for an Advance under the Line of Credit Facility is subject to the following additional conditions precedent (unless and except to the extent expressly waived by Administrative Agent in its sole and absolute discretion, but with the concurrence of each Line Lender):

2.3.1. Advance Request. Administrative Agent must have received an Advance Request under and in accordance with Section 1.4.1.

2.3.2. Compliance.

2.3.2.1. Fees and Expenses. Borrowers must have paid (or made acceptable arrangements with Administrative Agent to pay) all fees and expenses due and payable hereunder, including all reasonable expenses incurred in connection with or as a result of reviewing and funding such Advance Request.

2.3.2.2. Representations. Each, and all, representations and warranties contained in the Loan Documents (including those in Article 3) and in each other certificate or other writing delivered to Administrative Agent pursuant hereto or thereto on or prior to the Settlement Date must be true, correct and complete in all material respects on and as of the Settlement Date, except for such deviations disclosed in writing and acceptable to Administrative Agent and each Lender (which disclosure will not constitute Lenders' waiver or acceptance thereof).

2.3.2.3. No Default. There must not be any Default or Event of Default hereunder or any default under any other Loan Document on the Settlement Date, and there must not be any such Default or Event of Default occurring as a result of funding such Advance, except for such defaults disclosed in writing and acceptable to Administrative Agent and each Lender (which disclosure will not constitute Lenders' waiver or acceptance thereof).

2.3.2.4. No Material Change. There must not have been (in Administrative Agent's or any Line Lender's reasonable opinion) any Material Adverse Change between the Closing Date and the Settlement Date.

ARTICLE 3: REPRESENTATIONS AND WARRANTIES

Each Borrower, as of the Closing Date and the Settlement Date for each Advance hereunder, hereby (jointly and severally) represents and warrants as follows:

3.1. Organization and Good Standing. Each Borrower and Guarantor (a) is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and (b) has all requisite power and authority to own its properties and to conduct its business as now conducted and as currently proposed to be conducted, and (c) is duly qualified to conduct business as a foreign organization and is currently in good standing in each state and jurisdiction in which it conducts business, except where failure to be duly qualified and in good standing could not have a Material

Adverse Effect. Each state and jurisdiction in which any Borrower or Guarantor is organized or is (or should be) qualified to conduct business under applicable law is listed on Schedule 3.1.

3.2. Power and Authority. Each Borrower and Guarantor has all requisite power and authority under applicable law and under its Organic Documents, Authorizations and Licenses to execute, deliver and perform the obligations under the Loan Documents to which it is a party. Except as disclosed on Schedule 3.2, all actions, waivers and consents (corporate, regulatory and otherwise) necessary or appropriate for any Borrower or Guarantor to execute, deliver and perform the Loan Documents to which it is a party have been taken and/or received.

3.3. Validity and Legal Effect. This Agreement constitutes, and the other Loan Documents to which any Borrower or Guarantor is a party constitute (or will constitute when executed and delivered), the legal, valid and binding obligations of each Borrower (jointly and severally) and, as applicable, Guarantor enforceable against each such Person in accordance with the terms thereof, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles (regardless of whether enforcement is sought in a proceeding in equity or at law).

3.4. No Violation of Laws or Agreements. The execution, delivery and performance of the Loan Documents (a) will not violate or contravene in any material respect any material law, rule, regulation, administrative order or judicial decree (federal, state or local), and (b) will not violate or contravene any provision of the Organic Documents of any Borrower or Guarantor, and (c) will not result in any material breach or violation of (or constitute a material default under) any material agreement or instrument by which any Borrower or Guarantor or any of property of any Borrower or Guarantor may be bound, and (d) will not result in or require the creation of any Lien (other than pursuant to the Loan Documents) upon or with respect to any properties of any Borrower, whether such properties are now owned or hereafter acquired.

3.5. Title to Assets; Existing Encumbrances; Identification of Intellectual and Real Property.

3.5.1. Each Borrower has good and marketable title to all of its owned real and personal property assets and the right to possess and use all of its leased or licensed real and personal property assets. All such property interests are free and clear of any Liens, except for Permitted Liens (as defined in Section 5.5). Each such property and asset owned, leased or licensed by any Borrower is titled, leased or licensed in the current legal name of such Borrower.

3.5.2. Intellectual Property -- Schedule 3.5A lists (as of the Closing Date or as of the date of any update to such Schedule) each trademark, service mark, copyright, patent, database, customized application software and systems integration software, trade secret and other intellectual property owned, licensed, leased, controlled or applied for by any Borrower, whether or not such intellectual property is recorded with the Copyright Office or the Patent and Trademark Office, together with relevant identifying information with respect to such intellectual property describing (among other things) the date of creation, the method of protection against adverse claims and the registration number.

3.5.3. Real Property -- Schedule 3.5B lists (as of the Closing Date or as of the date of any update to such Schedule) each real property interest owned, leased or otherwise used by any Borrower, together with relevant identifying information describing (among other things) the use of each such real property interest, the location and mailing address for each such real property, a legal description for each such real property (if requested by Administrative Agent), an indication of whether such interest is owned or leased (and, if leased, the lessor and record owner thereof), and the estimated value thereof. Each such property and asset is in good order and repair (ordinary wear and tear excepted) and is fully covered by the insurance required under Section 4.8.

3.5.4. Schedule 3.5C identifies each legal, operating and trade name that any Borrower has used (or permitted the filing of a UCC financing statement under) at any time during the 5 consecutive calendar years immediately preceding the Closing Date.

3.6. Capital Structure and Equity Ownership. Schedule 3.6 accurately and completely discloses (as of the Closing Date or as of the date of any update to such Schedule) (a) the number of shares and classes of equity ownership rights and interests of each Borrower authorized and/or outstanding (including warrants, options and other instruments convertible into such equity), and (b) with respect to each Borrower, the ownership thereof. All such shares and interests are validly issued and existing, fully paid and non-assessable.

3.7. Subsidiaries, Affiliates and Investments. Schedule 3.7 accurately and completely discloses (as of the Closing Date or as of the date of any update to such Schedule) (a) each Subsidiary and Affiliate of each Borrower and Guarantor (other than its officers and directors) and (b) each investment in or loan to any other Person by any Borrower in excess of \$2.5 million.

3.8. Material Contracts. Schedule 3.8 lists (as of the Closing Date or as of the date of any update to such Schedule) each "material contract" (within the meaning of Item 601(b)(10) of Regulation S-K under the Securities Exchange Act of 1934, as amended) to which any Borrower is a party, by which any Borrower or the property of any Borrower is bound or to which any Borrower or any such property is subject (collectively, "Material Contracts"). No Borrower has committed any unwaived material breach or default under any Material Contract (whether or not listed on Schedule 3.8), and after due inquiry and investigation, no Borrower has any knowledge or reason to believe that any other party to any such Material Contract (whether or not listed on Schedule 3.8) has or might have committed any unwaived material breach or default thereof.

3.9. Licenses and Authorizations. Each Borrower possesses all material Licenses and other Authorizations necessary or required in the conduct of its businesses and/or the operation of its properties. Each material Authorization is valid, binding and enforceable on, against and by such Borrower. Each material Authorization is subsisting without any defaults thereunder or enforceable adverse limitations thereon, and no such Authorization is subject to any proceedings or claims opposing the issuance, continuance, renewal, development or use thereof or contesting the validity or seeking the revocation thereof. Schedule 3.9 accurately and completely lists (as of the Closing Date or as of the date of any update to such Schedule) each material Authorization of each Borrower, together with relevant identifying information describing such Authorizations. For purposes of this Section 3.9, each Authorization issued by the FCC or any State PUC will be deemed to be "material".

3.10. Taxes and Assessments. Except as disclosed on Schedule 3.10, each Borrower (a) has timely filed all United States Federal income tax returns and all other material tax returns that it is required to file and (b) has paid all taxes due pursuant to any tax returns or pursuant to any assessment received by such Borrower. The charges, accruals and reserves on the books of each Borrower in respect of taxes or other governmental charges are adequate.

3.11. Litigation and Legal Proceedings. Except as disclosed on Schedule 3.11, or as otherwise disclosed to Administrative Agent and Lenders, there is no litigation, claim, investigation, administrative proceeding, labor controversy or similar action that is pending or (to the best of each Borrower's knowledge and information after due inquiry) threatened against any Borrower or its properties that, if adversely resolved, could reasonably be expected to have or cause a Material Adverse Effect.

3.12. Accuracy of Financial Information. All financial statements previously furnished to Administrative Agent or any Lender concerning the financial condition and operations of any one or more Borrowers (a) have been prepared in accordance with GAAP consistently applied, and (b) fairly present the financial condition of the organization covered thereby as of the dates and for the periods covered thereby (but, with respect to interim periodic financial statements, subject to normal and customary year end audit adjustments), and (c) disclose all material liabilities (contingent and otherwise) of each Borrower. In addition, all written information previously furnished to Administrative Agent or any Lender concerning the financial condition and operations of any Borrower are true, accurate and complete in all material respects.

3.13. Accuracy of Other Information. All written information contained in any application, schedule, report, certificate, or any other document furnished to Administrative Agent or any Lender by any Borrower or any other Person (on behalf of any Borrower) in connection with the Loan Documents is in all material respects true, accurate and complete, and no such Person (including Borrowers) has omitted to state therein (or failed to include in any such document) any material fact or any fact necessary to make such information not materially misleading. All written projections furnished to Administrative Agent or any Lender by any Borrower or any other Person on behalf of any Borrower have been prepared with a reasonable basis and in good faith, making use of such information as was available at the date such projection was made.

3.14. Compliance with Laws Generally. Each Borrower is in compliance in all material respects with all material laws, rules, regulations, administrative orders and judicial decrees (federal, state, local and otherwise) applicable to it, its operations and its properties.

3.15. ERISA Compliance. Each Borrower is in compliance in all material respects with all applicable provisions of ERISA.

3.16. Environmental Compliance. Each Borrower has received all permits and filed all notifications necessary under and is otherwise in compliance with the Environmental Control Statutes, except to the extent that such non-compliance (individually or in the aggregate) could not reasonably be expected to have a Material Adverse Effect.

3.17. Margin Rule Compliance. No Borrower owns or has any present intention of acquiring any "Margin Stock" within the meaning of the following Margin Regulations of the FRB: Regulation T at 12 C.F.R. Pt. 220, and Regulation U at 12 --- C.F.R. Pt. 221, and Regulation X at 12 C.F.R. Pt. 224. The credit extended under this Agreement does not constitute --- "Purpose Credit" within the meaning of the FRB's Margin Regulations.

3.18. Fees and Commissions. Except as disclosed on Schedule 3.18 or as required by Section 1.7, no Borrower owes any fees or commissions of any kind in connection with this Agreement or the transactions contemplated hereby, and no Borrower knows of any claim (or any basis for any claim) for any fees or commissions in connection with this Agreement or the transactions contemplated hereby.

3.19. Solvency. No Borrower is "insolvent," as such term is defined in Section 101(32) of the Bankruptcy Code (11 U.S.C. ss. 101(32)). No Borrower, by virtue of its obligations and actions in connection with the Loan Documents, has engaged or is engaging in any transaction that constitutes a fraudulent transfer or fraudulent conveyance under applicable federal or state law (including under Section 548 of the Bankruptcy Code or under the Uniform Fraudulent Transfer Act or the Uniform Fraudulent Conveyance Act).

3.20. Reserved.

ARTICLE 4: AFFIRMATIVE COVENANTS

Each Borrower (jointly and severally) hereby covenants and agrees that, so long as any indebtedness remains outstanding hereunder, each Borrower will comply with the following affirmative covenants:

4.1 Financial and Operating Covenants and Ratios. As of the end of each fiscal quarter, as and to the extent provided below, Borrowers must satisfy each of the following financial and operating ratios and characteristics, each of which will be determined (as applicable) using GAAP consistently applied, except as otherwise expressly provided:

4.1.1 Minimum Revenue by Subscriber Type. Bundled Services Revenue and LD Only Services Revenue for the fiscal quarter then ended of at least the following amounts during the identified periods between the Closing Date and December 31, 2001:

4.1.2 Maximum Subscriber Acquisition Costs. Subscriber Acquisition Costs for Bundled Subscribers and for LD Only Subscribers during the fiscal quarter then ended not to exceed the following during the identified periods between the Closing Date and December 31, 2001:

4.1.3 Minimum Gross Profit Margin. Prior to the Line Effective Date, a Gross Profit Margin of not less than 36.0% during any two consecutive fiscal quarters beginning with fiscal quarter ending December 31, 2000 and continuing through fiscal quarter ending December 31, 2001, and as of and after the Line Effective Date, a Gross Profit Margin of not less than 37.5% during any two consecutive fiscal quarters beginning with fiscal quarter ending December 31, 2000 and continuing through fiscal quarter ending December 31, 2001.

4.1.4 Interest Coverage Ratio. A ratio of TTM-OCF to Interest Expense of not less than the following:

- a. 2.0-to-1.0, for fiscal quarter ending December 31, 2001; and
- b. 3.0-to-1.0, for each fiscal quarter ending after December 31, 2001.

4.1.5 Total Charge Coverage Ratio. A ratio of TTM-OCF to Total Charges of not less than 1.10-to-1.0 for each fiscal quarter as of and after fiscal quarter ending December 31, 2001.

4.1.6 Funded Debt-Revenue Leverage Covenant. Funded Debt as of

the end of each fiscal quarter after December 31, 2000 of not more than 3.75 times the Average Monthly Revenue during such fiscal quarter.

4.1.7 Funded Debt-OCF Leverage Covenant. A ratio of Funded Debt to TTM-OCF during the identified periods after December 31, 2000 of not more than the following:

PRIOR TO the Line Effective Date:

| QUARTER ENDING | TTM-OCF |
|---|------------|
| December 31, 2001 | 6.0-to-1.0 |
| March 31, 2002 | 5.0-to-1.0 |
| June 30, 2002 | 5.0-to-1.0 |
| September 30, 2002 | 5.0-to-1.0 |
| December 31, 2002 | 5.0-to-1.0 |
| Each Quarter After December 31, 2002 | 5.0-to-1.0 |

AS OF AND AFTER the Line Effective Date:

| QUARTER ENDING | TTM-OCF |
|---|------------|
| December 31, 2001 | 6.0-to-1.0 |
| March 31, 2002 | 5.0-to-1.0 |
| June 30, 2002 | 5.0-to-1.0 |
| September 30, 2002 | 5.0-to-1.0 |
| December 31, 2002 | 5.0-to-1.0 |
| March 31, 2003 | 4.0-to-1.0 |
| June 30, 2003 | 4.0-to-1.0 |
| September 30, 2003 | 4.0-to-1.0 |
| December 31, 2003 | 4.0-to-1.0 |
| Each Quarter After December 31, 2003 | 3.0-to-1.0 |

4.1.8 Liquidity Covenant Prior to Line Effective Date. At all times prior to the Line Effective Date, the aggregate outstanding indebtedness of Borrowers under the Loan Documents must be less than 50% of the sum of the following amounts: (i) the aggregate accounts receivable of Borrowers for the provision of telecommunications services to unrelated third party Subscribers that are 60 calendar days or less past the initial due date therefor (including unbilled usage or accounts receivable that are less than 30 days old) and (ii)

deposits of immediately available unencumbered funds held in accounts that are legally titled and beneficially owned solely by one or more Borrowers and/or Guarantor and that are encumbered with a first priority lien in favor of Administrative Agent (for the ratable benefit of Lenders) pursuant to a security agreement and a control agreement that are in form and substance acceptable to Administrative Agent (in its commercially reasonable discretion).

4.2. Periodic Financial Statements and Compliance Certificates.

4.2.1. Quarterly Financial Statements. As soon as practicable after the end of each fiscal quarter of each fiscal year (other than the fourth fiscal quarter), beginning with the fiscal quarter ending September 30, 2000, and in any event not later than 10 calendar days following the filing thereof with the SEC, Borrowers must prepare and deliver (or cause to be prepared and delivered) to Administrative Agent and each Lender unaudited consolidated balance sheets of TALK.COM INC. and its Subsidiaries (including each Borrower) as of the end of such fiscal quarter and unaudited consolidated statements of income and cash flows for TALK.COM INC. and its Subsidiaries (including each Borrower) for the fiscal quarter then ended and for that portion of the fiscal year then ended, in each case setting forth comparative consolidated figures as of the end of and for the corresponding period in the preceding fiscal year, all in reasonable detail and prepared in accordance with GAAP (including any required schedules thereto but subject to the absence of notes required by GAAP and subject to normal year-end adjustments) applied on a basis consistent with that of the preceding

quarter or containing disclosure of the effect on the financial condition or results of operations of any change in the application of accounting principles and practices during such quarter. Together with the quarterly financial statements, Administrative Agent and each Lender must also receive a certificate executed by the chief financial officer or such other executive officer of Borrowers as is acceptable to Administrative Agent (a) stating that the financial statements fairly present the financial condition of TALK.COM INC. and its Subsidiaries (including each Borrower) as of the date thereof and for the periods covered thereby, and (b) providing a reconciled calculation demonstrating compliance with each of the financial and operating covenants and ratios under Section 4.1 (using the form attached as Exhibit 4.2), and (c) certifying that as of the date of such certificate there is not any existing Default or Event of Default.

4.2.2. Annual Financial Statements. As soon as practicable after the end of each fiscal year, beginning with the fiscal year ending December 31, 2000, and in any event not later than 10 calendar days following the filing thereof with the SEC and not later than 100 calendar days after then end of each fiscal year, Borrowers must prepare and deliver (or cause to be prepared and delivered) to Administrative Agent and each Lender an audited consolidated balance sheet of TALK.COM INC. and its Subsidiaries (including each Borrower) as of the end of such fiscal year and audited consolidated statements of income and cash flows for TALK.COM INC. and its Subsidiaries (including each Borrower) for the fiscal year then ended (including the notes and any required schedules thereto), in each case setting forth comparative figures as of the end of and for the preceding fiscal year, all (a) in reasonable detail, and (b) prepared in accordance with GAAP applied on a basis consistent with that of the preceding year or containing disclosure of the effect on the financial condition or results of operations of any change in the application of accounting principles and practices during such year, and (c) certified by an independent certified public accounting firm of recognized national standing reasonably acceptable to Required Lenders. Together with such annual financial statements, Administrative Agent and each Lender must also receive all related management letters (if any) prepared by such accountants with respect thereto and a report thereon by such accountants (1) that does not restrict reliance thereon by Administrative Agent or Lenders, and (2) that is not qualified as to going concern or scope of audit, and (3) that is to the effect that such financial statements present fairly in all material respects the consolidated financial condition and results of operations of TALK.COM INC. and its Subsidiaries (including each Borrower) as of the dates and for the periods indicated.

4.3. Other Financial and Specialized Reports.

4.3.1. Reserved.

4.3.2. SEC Filings, Shareholder Communications and Press Releases. Within 10 Business Days after sending, filing, issuing or receiving, as applicable, any of the following documents by TALK.COM INC. or any Borrower, Borrowers must deliver (or cause to be delivered) a copy of the following to Administrative Agent and each Lender: (a) all financial statements, reports, notices and proxy statements that TALK.COM INC. shall send or make generally available to any class of its shareholders, (b) all regular, periodic and special reports, registration statements and prospectuses (including on Form 8-K, Form 10-K and Form 10-Q, but excluding on Form S-8) that TALK.COM INC. shall file with the SEC and (c) all press releases and other statements made available

generally by TALK.COM INC. or any Borrower to the public concerning material developments in the business of TALK.COM INC. or any Borrower.

4.4. Reserved.

4.5. Books and Records; Maintenance of Properties. Each Borrower will keep and maintain satisfactory and adequate books and records of account, which (to the extent applicable) shall be maintained in accordance with GAAP. Each Borrower will also keep, maintain and preserve all of its property and assets in good order and repair (ordinary wear and tear excepted and except to the extent such property has become obsolete and has been replaced).

4.6. Existence and Good Standing. Each Borrower will preserve and maintain (a) its existence as a corporation under the laws of its jurisdiction of organization (except as and to the extent otherwise expressly permitted under Section 5.8), and (b) its good standing in all jurisdictions where it conducts business (unless the failure to do so could not reasonably be expected to have a Material Adverse Effect), and (c) the validity of all its Authorizations and Licenses required or otherwise appropriate in the conduct of its businesses (unless the failure to do so could not reasonably be expected to have a Material Adverse Effect).

4.7. Deposit Accounts. Borrowers (a) will maintain commercial deposit accounts only at federally insured depository institutions rated as "well capitalized" by their primary federal regulator and (b) will provide Administrative Agent with written notice of the institution's name and location and the account name and number with respect to each such account within 20 calendar days after opening or acquiring any such account. The institution's name and location and the account name and number for each such account in existence as of the Closing Date (or as of the date of any update to such Schedule) are listed on Schedule 4.7.

4.8. Insurance; Disaster Contingency.

4.8.1. General Insurance Provisions. Each Borrower will maintain with financial sound and reputable insurance companies insurance with respect to its assets, properties and business, against such hazards and liabilities, of such types, in such amounts and with such deductibles, as is customarily maintained by companies in the same or similar businesses similarly situated. If any Borrower fails or refuses to obtain or maintain any such insurance coverage after being requested to do so in writing, then Administrative Agent (at its election) may (but is not obligated to) obtain and maintain such insurance coverage on behalf of such Borrower, and the premiums and other costs thereof (a) will be included in the indebtedness hereunder secured by the Collateral and (b) will be due and payable by such Borrower to Administrative Agent immediately upon demand. Each such policy for liability insurance must name Administrative Agent (for the benefit of Lenders) as loss payee, and each such other policy for insurance must name Administrative Agent (for the benefit of Lenders) as loss payee and as additional insured. Each such policy must also require the insurer to furnish Administrative Agent with written notice at least 10 calendar days prior to any termination, cancellation or lapse of coverage and must provide Administrative Agent with the right (but not the obligation) to cure any non-payment of premium. Upon Administrative Agent's request, each Borrower (from time to time) will furnish Administrative Agent with proof of such insurance (in form and substance acceptable to Administrative Agent) and a copy of the related policy.

4.8.2. Disaster Recovery and Contingency Program. Each Borrower will maintain (and at least annually review the sufficiency of) a disaster recovery and contingency plan that addresses each Borrower's plans for continuing operations upon the occurrence of a natural disaster or other event that destroys or prevents the use of or access to such Borrower's primary computer systems, information databases, software applications, business records and operations facility and/or such Borrower's switch sites. Such contingency plan at all times must be in form and substance reasonably acceptable to Administrative Agent. Upon request, each Borrower will provide Administrative Agent with a current copy of such plan.

4.9. Loan Purpose. Borrowers will use the proceeds of each Advance hereunder exclusively as set forth in Sections 1.1.3 and 1.2.3.

4.10. Taxes. Each Borrower will pay and discharge all taxes, assessments or other governmental charges or levies imposed on it or any of its property or assets prior to the date upon which any penalty for non-payment or late payment is incurred, unless (a) the same are then being contested in good faith by appropriate proceedings diligently prosecuted, and (b) adequate reserves therefor acceptable to Administrative Agent have been established, and (c) Administrative Agent has been notified thereof in writing, and (d) the consequences of such non-payment could not reasonably be expected to have a Material Adverse Effect. Notwithstanding the foregoing, this Section 4.10 does not apply with respect to franchise taxes and other fees and charges associated with qualification by a Borrower in a state where such Borrower is not operating so long as such failure to pay such fees or charges (individually or in the aggregate) could not reasonably be expected to have a Material Adverse Effect.

4.11. Reserved.

4.12. Litigation and Administrative Proceedings. Each Borrower will notify Administrative Agent in writing within 30 calendar days after becoming aware of the institution or commencement of any litigation, legal or administrative proceeding, or labor controversy (a) with a purported amount in controversy in excess of \$2.5 million, or (b) that could otherwise reasonably be expected to have or cause a Material Adverse Effect.

4.13. Monitoring Compliance; Occurrence of Certain Events. Each Borrower at all times will maintain (and comply with) commercially reasonable procedures and systems designed to monitor compliance and to detect instances of non-compliance with the Loan Documents. Each Borrower will notify Administrative Agent in writing within 10 Business Days after becoming aware of (a) the occurrence of any Default or Event of Default hereunder, or (b) the occurrence of any Default or Event of Default under any other Loan Document, or (c) the happening of any event or the assertion or threat of any claim that could reasonably be expected to have or cause a Material Adverse Effect.

4.14. Compliance with Laws. Each Borrower will comply in all material respects (a) with all material laws, rules, regulations and orders (federal, state, local and otherwise) applicable to its business, and (b) with the provisions and requirements of all Authorizations. Each Borrower will promptly notify Administrative Agent of such Borrower's receipt of any notice from any governmental authority or other Person asserting any actual or alleged failure by such Borrower to so

comply with any such laws, rules, regulations, orders or Authorizations or setting forth circumstances that, if adversely determined, would be reasonably likely to have a Material Adverse Effect. Such "material" laws, rules, regulations and orders shall include, as applicable, (i) the Federal Communications Act and each State Communications Act and the rules, regulations, policies, procedures and orders of the FCC and each such State PUC, and (ii) the Environmental Control Statutes, and (iii) ERISA.

4.15. Further Actions.

4.15.1. Additional Collateral. Each Borrower will execute, deliver and record (or, as appropriate, cause the execution, delivery and recordation) at any time upon Administrative Agent's reasonable request and in form and substance reasonably satisfactory to Administrative Agent, any of the following instruments in favor of Administrative Agent as additional Collateral hereunder: (a) mortgages, deeds of trust and/or assignments on or of any real or personal property owned, leased or licensed by it, and (b) certificates of title encumbrances against any of its titled vehicles, and (c) any other like assignments or agreements specifically covering any of its properties or assets (including assignments of any patents, trademarks, copyrights, databases, trade secrets and other forms of intellectual property and deposit account control agreements), and (d) any financing or continuation statements requested by Administrative Agent. In addition, without limiting the generality of the foregoing, BUT ONLY to the extent that any such grant of additional collateral (in Borrowers' reasonable judgment) would not require the consent or approval of AoL, then Borrowers (at any time upon the request of Administrative Agent) will use commercially reasonable efforts to cause TALK.COM INC. to grant an all-asset lien in favor of Administrative Agent (for the benefit of Lenders) as collateral support for the Guaranty by TALK.COM INC.

4.15.2. Further Assurances. From time to time, each Borrower will execute and deliver (or will cause to be executed and delivered) such supplements, amendments, modifications to and/or replacements of the Loan Documents and such further instruments as may be reasonably required to effectuate the intention of the parties to (or to otherwise facilitate the performance of) the Loan Documents.

4.15.3. Estoppel Certificates. Upon Administrative Agent's request, each Borrower will execute, acknowledge and deliver (or, as appropriate, cause the execution, acknowledgment and delivery) to such Persons as Administrative Agent may reasonably request a statement in writing certifying as follows (to the best of its knowledge, after diligent inquiry): (a) that the Loan Documents (as amended, if applicable) are unmodified and in full force and effect, and (b) that the payments under the Loan Documents required to be paid by Borrowers have been paid, and (c) the then unpaid principal balance of Facilities hereunder, and (d) whether or not any Default is then occurring under any of the Loan Documents and, if so, specifying each such Default of which the signer may have knowledge, and (e) whether or not any Borrower is then entitled to assert any claims, defenses or causes of action that would impose any liability upon Administrative Agent or any Lender or that would otherwise challenge the enforceability any Loan Document or any provision thereof (including, the existence of any so-called "Lender Liability" claims or defenses). Unless such Borrower otherwise consents (which consent will not be unreasonably withheld, delayed or conditioned), Administrative Agent must give such Borrower at least ten (10) Business Days to complete and deliver any such certificate. Each Borrower understands and agrees that any such

certificate delivered pursuant to this Section may be relied upon by Administrative Agent, each Lender, and, if different, by the recipient thereof.

4.15.4. Waivers and Consents. At any time upon Administrative Agent's request, each Borrower will use its commercially reasonable efforts to obtain and deliver (in form and substance reasonably satisfactory to Administrative Agent) a waiver or consent to the assignment to Administrative Agent of any contract, lease, Authorization or other agreement to which it is a party.

4.15.5. Access and Audits. Administrative Agent and each Lender (from time to time at its discretion) may conduct audits of the Collateral and of the performance and operations of any Borrower. Each Borrower (upon Administrative Agent's request from time to time) will use its commercially reasonable efforts to provide Administrative Agent and each Lender (and their representatives and agents) with reasonable access, during normal business hours, to such Borrower's management personnel, books and records, property and operations (including its financial records), whether such property, books and records are in the possession of such Borrower or are in the possession of a third party (including the possession of such Borrower's Affiliates, accountants and legal counsel), provided however that such efforts to provide access under this Section shall not require any Borrower to waive any legal privilege available to such Borrower with respect to such information. In connection with any such audit, Administrative Agent and each Lender may also make notes and copies of (and extracts from) relevant records.

4.15.6. Updating of Loan Document Schedules. From time to time upon the written request of Administrative Agent (which request shall not be made more frequently than once every 12 months unless an Event of Default exists), Borrowers will prepare and deliver to Administrative Agent (with 15 Business Days of any such request) an updated version of the Schedules to the Loan Documents.

4.16. Costs and Expenses. Borrowers will pay or reimburse Administrative Agent and each Lender for all reasonable fees and costs (including all reasonable attorneys' fees and disbursements and the reasonable fees and disbursements of in-house counsel and documentation personnel) that Administrative Agent or any Lender from time to time may pay or incur in connection with (a) the preparation, negotiation and review of the Loan Documents, any waivers, consents and amendments in connection herewith or therewith and all other documentation related hereto or thereto, and (b) the funding of the indebtedness or any Advance hereunder, and (c) the initial and continuing perfection or protection of Administrative Agent's or any Lender's interest in any of the Collateral, and (d) the collection or enforcement of any of the Loan Documents, and (e) the periodic examination and auditing of the Collateral and the books, records and operations of Borrowers (but only in connection with one such audit during any calendar year unless a Default or Event of Default has occurred and is continuing), and (f) Administrative Agent's release of its interests in the Collateral in accordance with the terms of the Loan Documents. Borrowers will pay any and all recordation taxes or other fees due upon the filing of the financing statements or documents of similar effect required to be filed under the Loan Documents, and will provide Administrative Agent with a copy of any receipt or other evidence reflecting such payments. All obligations provided for in this Section shall survive the termination of this Agreement and/or the repayment of indebtedness hereunder.

4.17. Other Information. Each Borrower will provide Administrative Agent with any other documents and information (financial or otherwise) reasonably requested by Administrative Agent or its counsel from time to time.

4.18. Reserved.

4.19. Post-Closing Items.

a. Estoppels and Consents. Within 60 calendar days after the Closing Date, Borrowers will use commercially reasonable efforts to obtain and deliver to Administrative Agent such estoppel and consent agreements in favor of Administrative Agent (for the benefit of Lenders), in form and substance acceptable to Administrative Agent (in its commercially reasonable discretion) relating to the real property leases listed on Schedule 3.5B (other than the lease of parking spaces located in Pinellas County, Florida). Notwithstanding the foregoing, so long as Borrowers satisfy the "commercially reasonable" standard set forth above, then failure of any Borrower to obtain any such estoppel and consent shall not constitute a Default hereunder.

b. Mortgages and Title Insurance Policies. Within 30 calendar days after the Closing Date, Borrowers will provide Administrative Agent with legal descriptions for and will execute, file and deliver to Administrative Agent (in such form as Administrative Agent may request in its commercially reasonable discretion) one or more deeds of trust, mortgages and/or fixture filings encumbering in favor of Administrative Agent (for the benefit of Lenders), together with an acceptable lender's title policy, with respect to the real estate owned by any Borrower.

c. Merrill Lynch Control Agreement. Within 30 calendar days after the Closing Date, Borrowers will deliver to Administrative Agent one or more executed control agreements with respect to each investment account that Borrowers have at Merrill Lynch.

d. Dissolution of Inactive Subsidiaries Access One of Virginia, Talk.com Texas and Talk.com New Hampshire. Within 90 calendar days after the Closing Date, Borrowers either will dissolve or merge into another Borrower (and provide Administrative Agent with evidence thereof) the following three entities: (a) Access One Communications of Virginia, Inc. and (b) Talk.com, Inc., a Texas corporation and (c) Talk.com Holding Corp., a New Hampshire corporation.

ARTICLE 5: NEGATIVE COVENANTS

Each Borrower (jointly and severally) hereby covenants and agrees that, so long as any indebtedness remains outstanding hereunder, each Borrower will comply with the following negative covenants (unless Required Lenders through Administrative Agent otherwise consent in writing, which consent will not be unreasonably withheld, delayed or conditioned while no Default is occurring):

5.1. Capital Expenditures. As of and after January 1, 2001, Borrowers (on a consolidated basis) will not incur Capital Expenditures in any fiscal year in excess of \$30 million. Notwithstanding the foregoing, no Borrower may make any such Capital Expenditure to acquire all or

any substantial portion of the assets or equity of another business enterprise (unless explicitly permitted by Section 5.7).

5.2. Additional Indebtedness. No Borrower will borrow any monies or create, incur, assume or permit to exist any additional indebtedness, obligations or liabilities (including monetary obligations evidenced by a promissory note and monetary obligations under non-compete and consulting arrangements) except as follows (collectively, the "Permitted Indebtedness"):

a. Indebtedness under the Loan Documents in favor of Lenders;
and

b. Trade indebtedness, if and to the extent (i) such indebtedness is incurred in the normal and ordinary course of business for value received and (ii) such indebtedness (to the extent it exceeds \$5 million to any single vendor or \$15 million in the aggregate among all such vendors) is paid on a current basis or is less than 60 calendar days past the due date therefor (other than with respect to any such indebtedness that is then being diligently disputed by Borrowers in good faith or with respect to any such indebtedness in favor of a vendor with whom Borrowers have a good faith dispute, claim or counterclaim regarding service or performance under a contract); and

c. Indebtedness and obligations incurred TO PURCHASE FIXED OR CAPITAL ASSETS, consistent with the restrictions in Section 5.1 and Section 5.5, provided, however, that (1) the aggregate amount of such asset acquisition indebtedness outstanding at any time (together with the aggregate amount of Capital Lease indebtedness outstanding under Subsection 5.2.d) may not exceed *** , and (2) such indebtedness must be immediately included in the calculation of Funded Debt, and (3) such fixed or capital assets being purchased may not constitute (a) customized application software or systems integration software, or (b) equity interests in or substantially all of the assets of another enterprise other than Permitted Investments, or (c) any other asset the loss of which could reasonably be expected to have or cause a Material Adverse Effect; and

d. Indebtedness and obligations incurred UNDER CAPITAL LEASES, consistent with the restrictions in Section 5.1 and Section 5.5, provided, however, that (1) the aggregate amount of such Capital Lease indebtedness outstanding at any time (together with the aggregate amount of asset acquisition indebtedness outstanding under Subsection 5.2.c) may not exceed *** , and (2) such indebtedness must be immediately included in the calculation of Funded Debt, and (3) such fixed or capital assets being leased may not constitute (a) customized application software or systems integration software, or (b) any asset the loss of which could reasonably be expected to have or cause a Material Adverse Effect; and

e. Indebtedness in favor of another Borrower if and to the extent permitted under Section 5.7; and

f. Subordinated Indebtedness if and to the extent permitted under Section 5.11; and

g. Loans and advances by any Borrower to any other Borrower so long as each such loan or advance (1) is unsecured, and (2) is subordinated in right and time of payment to the Obligations, and (3) is evidenced by a promissory note (in form and substance reasonably satisfactory to Administrative Agent) that is endorsed in blank and delivered to Administrative Agent as additional Collateral under the Loan Documents; and

h. Other unsecured Indebtedness incurred with unrelated third parties in the aggregate outstanding at any time not to exceed \$2.5 million; and

i. Unsecured severance obligations (that were approved by such Borrower's board of directors) to former officers and employees; and

j. Any renewals, extensions, modifications and replacements of the Indebtedness permitted under this Section that do not increase the principal amount thereof and that otherwise comply with any stated conditions applicable thereto under this Section; and

k. Such indebtedness listed on Schedule 5.2 with the prior written consent of Lenders through Administrative Agent (which consent will not be unreasonably withheld while no Default is occurring). Unless Lenders through Administrative Agent otherwise expressly consent in writing (or unless otherwise specified on Schedule 5.2), all indebtedness listed on Schedule 5.2 must be included in the calculation of Funded Debt.

5.3. Guaranties. No Borrower will guarantee, assume or otherwise be or agree to become liable in any way, either directly or indirectly, for any additional indebtedness or liability of any other Person, except as follows (collectively, the "Permitted Guaranties"): (a) in favor of Lenders or Administrative Agent, or (b) to endorse checks, drafts and negotiable instruments for collection in the ordinary course of business, or (c) in favor of another Borrower (so long as such obligation or liability is subordinate to the Obligations in favor of Lenders under the Loan Documents and is reflected on the books and records of such Borrowers), or (d) as listed on Schedule 5.3 with the consent of Lenders, or (e) to the extent that Lenders through Administrative Agent otherwise consent in writing.

5.4. Reserved. [COMMENT: PRIOR TEXT OF SECTION 5.4 INCORPORATED INTO SECTION 5.7.]

5.5. Liens and Encumbrances; Negative Pledge. No Borrower will create, permit or suffer the creation or existence of any Liens on any of its property or assets (real or personal, tangible or intangible), except as follows (collectively, the "Permitted Liens"):

a. Liens in favor of Administrative Agent as security for the Obligations under the Loan Documents; and

b. Liens arising in favor of sellers or lessors for indebtedness and obligations incurred to purchase or lease fixed or capital assets as permitted under Section 5.2.c or Section 5.2.d, provided, that (1) such Liens secure only the indebtedness and obligations created thereunder (but not any related monetary obligations under non-compete and consulting arrangements) and are limited to the assets purchased or leased pursuant thereto, and (2) such fixed or capital assets do not constitute (a) customized application software or systems integration software, or (b) equity interests in or substantially all of the assets of another enterprise, or (c) any other asset the loss of which could reasonably be expected to have or cause a Material Adverse Effect; and

c. Liens for taxes, assessments or other governmental charges (federal, state or local) that are not yet delinquent or that are then being currently contested in good faith by appropriate proceedings diligently prosecuted, provided, however, that (1) the existence of such Liens and challenge of such charges must have been fully disclosed to Administrative Agent, and (2) adequate reserves therefor in accordance with GAAP must have been established, and (3) such Liens (in Administrative Agent's reasonable opinion) could not reasonably be expected to have or cause a Material Adverse Effect; and

d. Liens or deposits in the ordinary course of business to secure obligations under workmen's compensation, unemployment insurance or social security laws or similar legislation; and

e. Deposits to secure performance or payment bonds, bids, tenders, franchises or public and statutory obligations required in the ordinary course of business; and

f. Deposits to secure surety, appeal or custom bonds required in the ordinary course of business; and

g. Possessory liens of carriers, warehousemen, mechanics, materialmen and landlords incurred in the ordinary course of business for sums not more than 30 calendar days past due or for sums being currently contested in good faith by appropriate proceedings diligently prosecuted, provided, however, that (1) the existence of such Liens and challenge of such sums allegedly due must have been fully disclosed to Administrative Agent, and (2) adequate reserves therefor in accordance with GAAP must have been established, and (3) such Liens (in Administrative Agent's reasonable opinion) could not reasonably be expected to have or cause a Material Adverse Effect; and

h. Easements, rights-of-way, restrictions and other similar encumbrances on real property of a Borrower that, independently and in the aggregate, do not materially interfere with the occupation, use or enjoyment by such Borrower of the property or assets encumbered thereby in the normal course of business; and

i. Attachment and/or judgment Liens (i) that are being contested in good faith by appropriate proceedings diligently prosecuted, and (ii) for which adequate reserves (if any) have been established in accordance with GAAP, and (iii) that (in Administrative Agent's reasonable opinion) could not reasonably be expected to have a Material Adverse Effect; and

j. Liens arising from the filing (for notice purposes only) of financing statements in respect of true leases to the extent such leases are permitted under Section 5.2; and

k. Liens securing renewals, extensions, modifications and replacements of any Indebtedness secured by a Lien permitted under this Section so long as (i) such Indebtedness is not increased, (ii) such renewal, extension, modification or replacement is not secured by any additional assets, and (iii) such Lien otherwise complies with any stated conditions applicable thereto under this Section; and

l. Liens listed on Schedule 5.5 with the consent of Required Lenders through Administrative Agent (which consent will not be unreasonably withheld, delayed or conditioned while no Default is occurring).

No Borrower will similarly covenant to or in favor of any other Person that it will not create, permit or suffer the creation or existence of any Liens on any of its property or assets. In addition, no Borrower will purchase or otherwise acquire any additional assets (including any leasehold interest therefor) unless Administrative Agent's interest in such property either (a) is already covered and perfected pursuant to an existing and effective UCC-1 financing statement, fixture filing, mortgage and/or leasehold mortgage (as appropriate) in favor of Administrative Agent or (b) except as provided in Clause "(c)" below, otherwise becomes properly perfected within 5 calendar days after any such

acquisition by such Borrower's filing (at its expense) all necessary UCC-1 financing statements, fixture filings, mortgages and/or leasehold mortgages (as appropriate, and in form and substance reasonably acceptable to Administrative Agent) or (c) with such additional assets or group of related additional assets that do not have a cost or a fair market value in excess of \$250,000, otherwise becomes properly perfected within 15 calendar days after any executive officer (including the general counsel) of a Borrower becomes aware that such acquisition necessitates additional filings in order for the interest of Administrative Agent in such assets to be perfected. Moreover, no Borrower will establish or maintain any "securities account" with any "securities intermediary" (as such terms are defined in Article 8 of the UCC) except as permitted under Section 5.7.

5.6. Transfer of Assets. No Borrower will sell, lease, license on an exclusive basis, transfer or otherwise dispose of all or substantially all of its assets. In addition, no Borrower will sell, lease, license on an exclusive basis (without retaining such Borrower's and its assigns' absolute right to use on a royalty-free basis), transfer or otherwise dispose of ANY of its assets other than as follows (collectively, the "Permitted Transfers"): (a) Assets with a fair market value of \$10 million or less pursuant to a transaction with an unrelated third party in the normal and ordinary course of business for value received and otherwise in accordance with the terms hereof (including Sections 1.1.6.5.c and 1.2.6.5.c), and (b) assets sold or transferred to another Borrower, and (c) to the extent that Lenders through Administrative Agent otherwise consent in writing (which consent may be conditioned upon compliance with Sections 1.1.6.5.c and 1.2.6.5.c).

5.7. Acquisitions and Investments. No Borrower will purchase or otherwise acquire (including by way of share exchange) any part or amount of the equity ownership, assets, evidences of indebtedness or other obligations, securities or interests of any other Person. Notwithstanding the foregoing, Borrowers may acquire or invest in the following (collectively, the "Permitted Investments"):

a. "Cash Equivalents", which term shall be defined to mean (i) any direct obligation of or obligation unconditionally guaranteed by the United States of America or any State thereof (or any agency, political subdivision or instrumentality thereof, to the extent backed by the full faith and credit of the United States of America or any State thereof) maturing not more than 1 year from the date of acquisition; AND/OR (ii) commercial paper maturing not more than 270 days from the date of issuance, which is issued by either (a) any Person organized under the laws of any State of the United States of America or the District of Columbia and rated at least A-1 or higher by Standard & Poor's Rating Services or P-1 or higher by Moody's Investors Service, Inc. as of the date of issuance, or (b) any Lender (or its holding company); AND/OR (iii) time deposits, bankers acceptances and certificates of deposit, maturing not more than 1 year from the date of issuance, which is issued by either (a) a bank or trust company organized under the laws of the United States of America or any State thereof that has combined capital and surplus of at least \$500,000,000 and that has (or is a subsidiary of a bank holding company that has) a long-term unsecured debt rating of A or higher, a credit rating of A or higher from Standard & Poor's Rating Services or a credit rating of A-2 or higher by Moody's Investors Service, Inc., or (b) any Lender; AND/OR (iv) repurchase obligations or agreements having a term not exceeding thirty (30) days with respect to underlying securities of the types described in clause (i) above entered into with any Lender or any bank or trust company meeting the qualifications specified in clause (iii) (a) above; AND/OR (v) money market funds at least 90% of the assets of which

are continuously invested in securities of the type described in clauses (i), (ii), (iii) and (iv) above; and

b. Investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with, customers and suppliers, in each case in the ordinary course of business; and

c. Investments by way of contributions to capital or purchases of capital stock by any Borrower in any other wholly-owned Subsidiary of such Borrower that is (or immediately after giving effect to such investment will be) a Borrower; provided that such Borrower complies with the provisions of Sections 4.15 and 5.8; and

d. Investments consisting of (i) accounts receivable arising in the ordinary course of a Borrower's business or (ii) deposits and prepayments made by a Borrower to its vendors and other suppliers in the ordinary course of such Borrower's business in connection with the purchase price or acquisition of goods, inventory, supplies, materials, equipment, licenses or leases of intellectual property, and other assets or services; and

e. Investments consisting of (i) loans and advances of cash to employees of a Borrower for reasonable travel, relocation and business expenses in the ordinary course of such Borrower's business not exceeding \$2 million in the aggregate outstanding at any time, and (ii) advances to employees of a Borrower secured by shares of capital stock of TALK.COM INC. or options to purchase capital stock of TALK.COM INC. not exceeding \$1 million in the aggregate outstanding at any time, and (iii) extensions of trade credit by a Borrower in the ordinary course of such Borrower's business, and (iv) prepaid expenses by a Borrower incurred in the ordinary course of such Borrower's business; and

f. Investments consisting of intercompany indebtedness among Borrowers as and to the extent permitted under Section 5.2.g; and

g. Investments consisting of loans and advances by a Borrower to its Partitions in the ordinary course of such Borrower's business secured by the assets of such Partitions, evidenced by one or more written assignable instruments with such Partitions, and not exceeding *** in the aggregate outstanding at any time ***; and ; and

h. Investments consisting of noncash consideration received by a Borrower in connection with any disposition permitted under Section 5.6; and

i. "Permitted Acquisitions", which term shall be defined to mean acquisitions of other Persons or entities provided that (a) no Default or Event of Default exists at the time of such acquisition or would be caused thereby on a pro forma basis, and (b) Administrative Agent is provided with prior written notice of such acquisitions at least 15 calendar days prior to the occurrence thereof (and is concurrently therewith or immediately thereafter provided with a list of assets to be acquired, a copy of the draft acquisition documents, a copy of current financial statements on the target and any other information and materials that Administrative Agent may reasonably request), and (c) all assets and equity acquired in connection with such acquisitions are pledged and/or encumbered in favor of Administrative Agent with a first lien priority, and (d) the total consideration for such acquisition to be paid by Borrowers (inclusive of assumed liabilities, but

exclusive of stock of TALK.COM INC. issued in connection therewith) does not exceed \$25 million in any 12 consecutive month period; and

j. Investments listed on Schedule 5.7 with the consent of Required Lenders through Administrative Agent (which consent will not be unreasonably withheld, delayed or conditioned while no Default is occurring).

No Borrower will establish or maintain any "securities account" with any "securities intermediary" (as such terms are defined in Article 8 of the UCC), unless a control agreement acceptable in form and substance to Administrative Agent is first executed by such "securities intermediary" securing Administrative Agent's first priority interest and rights in and to all "financial assets" and "security entitlements" associated with such "securities account."

5.8. New Ventures; Mergers. No Borrower will (a) enter into any new business activities or ventures not related either to the current businesses of a Borrower or to the provision or marketing of other telecommunications services, or (b) merge or consolidate with or into any other corporation, partnership, limited liability company or other organization (unless such Borrower or another Borrower is the survivor, Administrative Agent is provided notice thereof at least 10 Business Days prior thereto, and such transaction will not cause a Default or Event of Default), or (c) create or acquire (or cause or permit the creation or acquisition of) any Subsidiary or Affiliate (except the hiring of officers and directors). Notwithstanding the foregoing, any Borrower may create or acquire (or cause or permit the creation or acquisition of) one or more wholly-owned Subsidiaries provided that (1) each such Subsidiary (at Required Lenders' sole discretion) becomes a "Borrower," a "Guarantor" and/or an "Obligor" under the Loan Documents, and (2) a first priority security interest in and pledge of 100% of the assets and equity of each such Subsidiary is perfected in favor of Administrative Agent as additional Collateral under the Loan Documents.

5.9. Transactions with Affiliates. No Borrower will enter into any transaction or agreement with any Subsidiary, Affiliate or other related enterprise except as follows: (a) reasonable and customary compensation arrangements in the ordinary course of business with its officers and directors, and (b) indebtedness among Borrowers (if any) to the extent permitted by Section 5.2, and (c) guaranties (if any) to the extent permitted by Section 5.3, and (d) employee loans (if any) to the extent permitted under Section 5.7, and (e) reasonable and customary asset transfers among Borrowers (if any) to the extent permitted under Section 5.6, and (f) dividends and distributions (if any) to the extent permitted by Section 5.10, and (g) transactions in the ordinary course of business between Borrowers.

5.10. Distributions or Dividends. No Borrower will declare or make (directly or indirectly) any payment or distribution with respect to, or incur any liability for the purchase, acquisition, redemption or retirement of, any of its equity interests (including warrants therefor) or as a dividend, return of capital or other payment or distribution of any kind to any holder of any such equity interest. Notwithstanding the foregoing, (a) a Borrower may pay lawful dividends to a holder of its equity who is also a Borrower, and (b) a Borrower may pay lawful dividends to TALK.COM INC. so long as (i) TALK.COM INC. is the legal and beneficial owner of shares of capital stock of such Borrower, and (ii) no Default then exists under the Loan Documents or would otherwise be caused by the payment of

such dividend (including, any Default under the Guaranty by TALK.COM INC. and/or any Default under Section 4.1 on a pro forma basis after deducting such proposed dividend from OCF).

5.11. Payment of Subordinated Indebtedness. No Borrower will incur or make any payments on Subordinated Indebtedness except as permitted by a separate intercreditor or subordination agreement executed between such other creditor and Administrative Agent. Notwithstanding the foregoing, if any Subordinated Indebtedness is subsequently authorized by Lenders and if any Default occurs under the Loan Documents, then no Borrower will make any further payments in connection with its Subordinated Indebtedness unless and until such Default has been waived or cured to the satisfaction of Administrative Agent and Lenders.

5.12. Reserved.

5.13. Issuance of Additional Equity. No Borrower will permit the issuance, reissuance, conversion or exercise of any equity interests (common stock, preferred stock, partnership interests, member interests or otherwise) or any options, warrants, convertible securities or other rights to purchase such beneficial or equity interest. Notwithstanding the foregoing, a Borrower may issue additional equity interests provided that: (a) such Borrower has provided written notice thereof to Administrative Agent at least 15 Business Days prior to such issuance (which notice must at least describe the type and amount of equity interests being purchased, the consideration to be received by such Borrower in exchange for such issuance, and the identity of the purchaser), and (b) such equity interests (other than equity interests owned by TALK.COM that are pledged to AOL or are restricted by the AOL Investment Agreements between TALK.COM and AOL) are pledged to Administrative Agent (with a first lien priority) as additional Collateral hereunder at the time of issuance thereof using documentation that is in form and substance reasonably acceptable to Administrative Agent, and (c) no Default or Event of Default then exists under the Loan Documents or would otherwise result from the issuance of such equity interest (including a Default under the change in control restrictions set forth in Section 7.1.8).

5.14. Removal of Assets. No Borrower will remove or permit the removal of any asset or group of assets (with a collective fair market value exceeding \$250,000) to a jurisdiction or a county in which no financing statement on Form UCC-1 has been filed naming Administrative Agent as "secured party" with respect to such assets. Notwithstanding the foregoing, a Borrower may remove the following types of assets under the following conditions: (a) temporary removal of equipment for repair or replacement provided that (to the extent that the fair market value of such equipment in the aggregate exceeds \$1 million) Administrative Agent has received prior written notice thereof indicating the type of equipment, its approximate fair market value, the destination location and an estimate of the length of time that such equipment will be removed from the relevant jurisdiction, and (b) booths, displays, marketing materials and related accompanying equipment of a Borrower being used temporarily in connection with marketing such Borrower's business at trade shows or otherwise (provided that the aggregate fair market value thereof does not exceed \$500,000), and (c) portable computers and related accompanying equipment being used by the officers, employees and independent representatives of a Borrower in connection with accomplishing such Borrower's business activities at home offices or otherwise (provided that the aggregate fair market value thereof does not exceed \$500,000). Moreover, no Borrower will move the location of its chief executive

office (or change its official mailing address) without providing Administrative Agent with written notice thereof at least 15 Business Days prior thereto.

5.15. Modifications to Organic Documents. No Borrower will (a) amend or otherwise modify any of its Organic Documents unless such amendment or modification could not reasonably be expected to have or cause a Material Adverse Effect and such Borrower provides Administrative Agent with written notice thereof at least 15 Business Days prior thereto, or (b) change its official name, its operating names or the names under which it executes contracts and conducts business unless such Borrower provides Administrative Agent with written notice thereof at least 15 Business Days prior thereto.

5.16. Terms of and Modifications to Material Relationships. Each Borrower will use commercially reasonable efforts to ensure that no Material Contract entered into by any Borrower after the Closing Date (including the renewal or extension of any Material Contract existing as of the Closing Date, other than the AoL Investment Agreements) will restrict any Borrower's ability to collaterally assign or encumber such contract in favor of Administrative Agent.

5.17. Margin Stock Restrictions; Other Federal Statutes. No Borrower will use any of the proceeds hereunder, directly or indirectly, to purchase or carry, or to reduce or retire any indebtedness that was originally incurred to purchase or carry, any Margin Stock or for any other purpose that might constitute the transactions contemplated hereby as a "Purpose Credit" within the meaning of the FRB's Margin Regulations. In addition, no Borrower will engage as its principal business in the extension of credit for purchasing or carrying Margin Stock. No Borrower will cause or permit any Loan Document to violate any other regulation of the FRB or the SEC or any provision of the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Company Act of 1940 or the Small Business Investment Act of 1958, each as amended, or any rules or regulations promulgated under any of such statutes.

ARTICLE 6: ADDITIONAL COLLATERAL AND RIGHT OF SET OFF

6.1. Additional Collateral. As additional collateral for the payment of any and all Obligations of each Borrower to Administrative Agent or any Lender (whether matured or unmatured, and whether now existing or hereafter incurred or created hereunder or otherwise), each Borrower hereby grants Administrative Agent and each Lender a security interest in and a lien upon all funds, balances and other property of any kind of such Borrower, or in which such Borrower has any interest (limited to the interest of such Borrower therein), now or hereafter in the possession, custody or control of Administrative Agent or such Lender or any Affiliate of Administrative Agent or such Lender.

6.2. Right of Set-Off. Administrative Agent and each Lender are hereby authorized at any time and from time to time during the existence of an Event of Default hereunder (unless expressly prohibited by applicable law) to set-off and apply any and all deposits (general or special, time or demand, provisional or final) and other indebtedness at any time held or owing by Administrative Agent or any Lender (or any of their Affiliates) to or for the credit or the account of any Borrower

against any and all of the indebtedness and monetary obligations of any Borrower now or hereafter existing under the Loan Documents or any other evidence of indebtedness originated, acquired or otherwise held by Administrative Agent or any Lender, irrespective of whether Administrative Agent or such Lender shall have made any demand under the Loan Documents or other indebtedness and although such obligations may be unmatured. Administrative Agent or such Lender agrees to notify Borrowers within a commercially reasonable time after any such set-off and application made by Administrative Agent or such Lender; provided, however, that the failure to give such notice shall not in any way affect the validity of such set-off and application.

6.3. Additional Rights. The rights of Administrative Agent and each Lender under this Article 6 are in addition to the other rights and remedies (including other rights of set-off) that Administrative Agent and Lenders may have by contract, at law, or otherwise.

ARTICLE 7: DEFAULT AND REMEDIES

7.1. Events of Default. Each of the following events separately constitutes an independent Event of Default hereunder:

7.1.1. Payment Obligations. If any payment of principal, interest, fees, expenses, indemnities or other sums payable to Administrative Agent or any Lender under any Loan Document (including under any Note) is not received by Administrative Agent in immediately available funds on the date such payment is due and payable and such failure to receive payment in immediately available funds continues for a period of five (5) Business Days after the due date therefor.

7.1.2. Representations and Warranties. If any representation, warranty or other statement made in any Loan Document, or in any written report, schedule, exhibit, certificate, agreement, or other document given by or on behalf of any Borrower or any other Obligor (or otherwise furnished in connection herewith) when made was misleading or incorrect in any material respect.

7.1.3. Financial Covenants. If Borrowers default in or fail to observe at any time any of the covenants set forth in Section 4.1.

7.1.4. Other Covenants in Loan Documents. If any Borrower or any other Obligor defaults in the full and timely performance when due of any other covenant or agreement contained in any Loan Document (or in any other document or agreement now or hereafter executed or delivered in connection herewith), and (other than with respect to Section 4.19) such default remains uncured for a period of ten (10) Business Days after the earlier of the date that Administrative Agent or any Lender notifies any Borrower thereof or the date that any Borrower otherwise acquires knowledge thereof. Notwithstanding the foregoing, if such covenant Default is not reasonably subject to cure within such 10 Business Day period, then such Default will not constitute an Event of Default under this Section 7.1.4 if and so long as (a) Administrative Agent was notified of the occurrence of such Default in writing within such 10 Business Day period, and (b) Borrowers (or such other Obligor) commenced cure within such 10 Business Day period, and (c) Borrowers (or such other Obligor)

continue to diligently pursue cure thereafter, and (d) such Default is ultimately cured to Administrative Agent's satisfaction (or waived by Administrative Agent in writing in accordance with Section 10.3) within a reasonable period of time after such 10 Business Day period (but in any event within 60 calendar days after the occurrence of such Default).

7.1.5. Default Under Other Agreements with Administrative Agent or Lenders. If any event of default (as described or defined therein, which term shall include any notice and cure periods provided therein) occurs or exists under the provisions of any other credit agreement, security agreement, mortgage, deed of trust, indenture, debenture, or other agreement relating to indebtedness in excess of \$50,000 by any Borrower in favor of Administrative Agent or any Lender, unless such default is waived by Administrative Agent or such Lender or cured to Administrative Agent's or such Lender's satisfaction.

7.1.6. Default Under Material Agreements with Other Parties. (a) If any Borrower or Guarantor fails or refuses to make any required payment (whether principal, interest or otherwise) with respect to any Funded Debt (or with respect to any guaranty or reimbursement obligation of any such indebtedness) with an aggregate exposure in excess of \$2.5 million prior to the expiration of any applicable grace period with respect to such payment, OR (b) if any such indebtedness for borrowed money with an aggregate exposure in excess of \$2.5 million is accelerated prior to its express maturity as a result of any default thereunder, OR (c) if any event of default (as described or defined therein, which term shall include any notice and cure periods provided therein) occurs or exists under the provisions of any other contract the loss or breach of which could reasonably be expected to have or cause a Material Adverse Effect. Notwithstanding the foregoing, the occurrence of such an event of default thereunder will not constitute an Event of Default under this Section 7.1.6 if and so long as either:

(1) (i) Administrative Agent was notified of the occurrence of such event of default in writing within 10 Business Days after the occurrence thereof, and (ii) the other Person to such agreement has not formally declared an event of default thereunder, has not accelerated any related indebtedness in connection therewith, and is not then otherwise pursuing any remedies thereunder, and (iii) Borrowers continue to diligently pursue resolving such dispute with such Person, and (iv) such event of default is ultimately cured (without any Borrower incurring any material liability) to Administrative Agent's satisfaction within a reasonable period of time after such 10 Business Day period (but in any event within 60 calendar days after the occurrence of such Default), or

(2) Within 30 calendar days after the occurrence of such event of default, the services or products provided under such Material Contract are replaced by such Borrower with substantially comparable services or products under a new contract with another Person (without any Borrower incurring any material liability) that is in form and substance acceptable to Administrative Agent.

7.1.7. Security Interest. If the security interest or lien in any of the Collateral (with a fair market value exceeding collectively \$250,000), other than Collateral consisting of equity ownership interest in Borrowers (other than equity of Talk Holding or Access One that is encumbered

in favor of AOL pursuant to the AOL Investment Agreements) or in subsidiaries or other securities of Borrowers (for which there is no permissible threshold for non-compliance), at any time does not constitute a legal, valid and enforceable security interest or lien in favor of Administrative Agent. Notwithstanding the foregoing, the occurrence of such an event involving Collateral (other than Collateral consisting of equity ownership interests or other securities) with a fair market value of less than \$500,000 will not constitute an Event of Default under this Section 7.1.7 if and so long as (a) Administrative Agent was notified of such Default in writing within 10 Business Days after the occurrence thereof, and (b) such Lien is subsequently created and/or perfected to Administrative Agent's satisfaction (and without in any way adversely affecting Administrative Agent's or any Lender's rights in or to such Collateral) within 30 calendar days after such event occurs.

7.1.8. Change of Control.

a. If Talk.com Inc. at any time ceases to own and control 100% of each class of securities of both Talk Holding, Access One and Tel-Save Holdings of Virginia, Inc.

b. If each Borrower (other than Talk Holding, Access One and Tel-Save Holdings of Virginia, Inc.) ceases to be owned and controlled 100% by another Borrower or by TALK.COM INC., except that up to 0.238% of the shares of common stock of The Other Phone Company may be owned by a Person other than a Borrower.

c. If any "Change of Control" occurs with respect to TALK.COM INC., which term shall be defined to mean that (i) any "person" or "group" (as such terms are used in Section 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act) of shares representing more than 50% of the combined voting power of the then-outstanding securities entitled to vote generally in elections of directors of TALK.COM INC. ("Voting Stock"), AND/OR (ii) TALK.COM INC. consolidates with or merges into any other corporation, or any other person merges into TALK.COM INC., unless the stockholders of TALK.COM INC. immediately before such transaction own (directly or indirectly) immediately following such transaction at least a majority of the combined voting power of the outstanding voting securities of the corporation resulting from such transaction in substantially the same proportion as their ownership of the Voting Stock immediately before such transaction, AND/OR (iii) TALK.COM INC. conveys, transfers or leases all or substantially all of its assets to any person (other than to one or more wholly-owned subsidiaries of TALK.COM INC. that are either Borrowers or other Guarantors), AND/OR (iv) the "Continuing Directors" (as defined in the next sentence) at any time do not constitute a majority of the board of directors of TALK.COM INC. (or, if applicable, a successor corporation to TALK.COM INC.). For purposes of Clause "(iv)" of the preceding sentence, a "Continuing Director" as of any date of determination is any member of the board of directors of TALK.COM INC. who (a) was a member of such board of directors on the date hereof or (b) was nominated for election or elected to such board of directors with the approval of a majority of the Continuing Directors who were members of such board of directors at the time of such nomination or election.

7.1.9. Government Action. If any governmental regulatory authority or judicial body makes any final non-appealable determination that could reasonably be expected to have or cause a Material Adverse Effect.

7.1.10. Insolvency. If any Borrower (a) becomes insolvent, bankrupt or generally fails to pay its debts as such debts become due; or (b) is adjudicated insolvent or bankrupt in any proceeding; or (c) admits in writing an inability to pay its debts; or (d) comes under the authority of a custodian, receiver or trustee (or one is appointed for substantially all of its, his or her property); or (e) makes an assignment for the benefit of creditors; or (f) has commenced against it any proceedings under any law related to bankruptcy, insolvency, liquidation, dissolution or the reorganization, readjustment or release of debtors that is either not contested or if contested is not dismissed or stayed within 60 calendar days after the commencement thereof; or (g) commences or institutes any proceedings under any law related to bankruptcy, insolvency, liquidation, dissolution or the reorganization, readjustment or release of debtors; or (h) calls a meeting of creditors with a view to arranging a composition or adjustment of debt; or (i) by any act or failure to act that indicates consent to, approval of or acquiescence in any of the foregoing.

7.1.11. Additional Liabilities. If any judgment, writ, warrant, attachment or execution or similar process that calls for payment or presents liability in excess of \$2.5 million is rendered, issued or levied against any Borrower or any of its properties or assets and such liability is not paid, waived, stayed, vacated, discharged, settled, satisfied or fully bonded within 30 calendar days after it is rendered, issued or levied.

7.1.12. Reserved.

7.1.13. FCC and Other Regulatory-Action Defaults. If any Official Body terminates, revokes, suspends, modifies, limits or fails to renew any Authorization of any Borrower and such action could reasonably be expected to have or cause a Material Adverse Effect.

7.1.14. Loss or Revocation of Guaranty. If TALK.COM INC. or any other Guarantor at any time revokes (or attempts to revoke) its Guaranty or its continuing obligations thereunder, or if TALK.COM INC. or any other Guarantor at any time -- becomes insolvent or bankrupt as described in Section 7.1.10, or if any Guaranty at any time does not constitute a ----- -- legal, valid, binding and enforceable obligation of such Guarantor.

7.2. Remedies.

7.2.1. Acceleration, Termination and Pursuit of Collateral. At any time during the existence of any Event of Default, at the election of Required Lenders but with notice thereof to a Borrower (unless an Event of Default described in Section 7.1.10 has occurred, in which case acceleration will occur automatically with respect to the entire indebtedness and without any notice), then Lenders (a) may terminate any or all Commitments and/or Facilities, and/or (b) may accelerate any Maturity Date, and/or (c) may declare all or any portion of the indebtedness of any or all Borrowers to Lenders (hereunder or otherwise, and including all principal, interest, fees, expenses and indemnities hereunder) to be immediately due and payable. At any time during the existence of any Event of Default, Lenders and Administrative Agent will also have the immediate right to enforce and realize upon any collateral security granted under any Loan Document in any manner or order that Required Lenders or Administrative Agent (at the direction of Required Lenders) deems expedient without regard to any equitable principles of marshaling or otherwise.

7.2.2. Mandatory Partial Prepayments. Without in any way limiting or otherwise restricting the availability of any other remedy available under the Loan Documents or under applicable law, and regardless of whether or not the indebtedness under the Loan Documents has been accelerated, upon the occurrence and during the continuance of any Event of Default (unless Lenders otherwise consent), Borrowers from time to time as and when required under Sections 1.1.6.5 and 1.2.6.5 shall make all prepayments required under such Sections.

7.2.3. Other Remedies. In addition to the rights and remedies expressly granted in the Loan Documents, each Lender and Administrative Agent also will have all other legal and equitable rights and remedies granted by or available under all applicable law (including the "self help" and other rights of a secured party under the UCC), and all rights and remedies will be cumulative in nature.

7.2.4. Special Regulatory-Related Remedies.

a. Each Borrower and Administrative Agent hereby acknowledge their intent that, during the existence of an Event of Default, to the fullest extent permitted by applicable law and governmental policy (including the rules, regulations and policies of the FCC and each State PUC), Administrative Agent will have all rights necessary or desirable to obtain, use and/or sell the assets and operations of each Borrower and the other Collateral, and to exercise all remedies available to Administrative Agent and each Lender under the Loan Documents, the UCC or other applicable law. Each Borrower and Administrative Agent agree that, if any applicable law or governmental policy changes subsequent to the date hereof that affects in any manner Administrative Agent's rights of access to, or use or sale of, any Borrower's assets or other Collateral (including Authorizations) or the procedures necessary to enable Administrative Agent to obtain such rights of access, use or sale during an Event of Default, then Administrative Agent and each Borrower will amend the Loan Documents (in such manner as Administrative Agent reasonably requests) in order to provide Administrative Agent with all such rights to the greatest extent possible consistent with then-applicable law and governmental policy.

b. Each Borrower hereby agrees (during the existence of a Default) to take any actions that Administrative Agent may reasonably request in order to enable Administrative Agent to receive the full rights and benefits granted to Administrative Agent and each Lender by the Loan Documents. Without limiting the generality of the foregoing, at any time during the existence of an Event of Default, at the cost and expense of Borrowers (jointly and severally), each Borrower will use its best efforts to assist and cooperate in obtaining all approvals (including all FCC and State PUC approvals) which are then required by applicable law or contract for or in connection with any action or transaction contemplated by the Loan Documents or the UCC. Each Borrower further agrees, upon Administrative Agent's request and at the expense of Borrowers (jointly and severally), at any time during the existence of an Event of Default, to prepare, sign, file and diligently prosecute (and to use its best efforts to cause the preparation, execution, filing and diligent prosecution by others) with the FCC the assignor's or transferor's portion of any applications for consent to the assignment of Authorizations or transfer of control thereof necessary or appropriate under the rules of each Official Body for approval of any sale or transfer of any Collateral or any Authorization pursuant to the exercise of Administrative Agent's and Lenders' remedies under the Loan Documents. Each Borrower further agrees that, during the existence of a Default, each Borrower will assist and

cooperate with Administrative Agent and each Lender (and will use its best efforts to cause others to assist and cooperate with Administrative Agent and each Lender) to ensure that each Borrower continues (a) to operate in the normal course of business, and (b) to fulfill all of its legal, regulatory and contractual obligations, and (c) to otherwise be properly and professionally managed. At Administrative Agent's request and the expense of Borrowers (jointly and severally), at any time during the existence of an Event of Default, such assistance and cooperation may include the employment of (and, to the maximum extent not prohibited by the rules, regulations and orders of the FCC, delegation of appropriate management authority to) one or more qualified and independent consultants and professional managers acceptable to Administrative Agent to assist in the interim operations of Borrowers; all of which each Borrower hereby agrees not to challenge. Each Borrower further consents to (and agrees that it will not challenge), at any time during the existence of an Event of Default, the transfer of control or assignment of Authorizations and other assets to a receiver, trustee, transferee, or similar official or to any purchaser of the Collateral pursuant to any public or private sale, judicial sale, foreclosure or exercise of other remedies available to Administrative Agent or any Lender as permitted by applicable law.

c. NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN ANY LOAN DOCUMENT, neither Administrative Agent nor any Lender nor any Borrower will take any action pursuant to the Loan Documents that would constitute or result in any assignment of an Authorization or any transfer of control of any Borrower if such assignment of Authorization or transfer of control would require under then existing law (including the written rules and regulations promulgated by the FCC) the prior approval of the FCC or any State PUC, unless such approval has been obtained (as applicable) from such State PUC (to the extent failure to obtain such approval by Administrative Agent could reasonably be expected to have or cause a Material Adverse Effect) or from the FCC. Without limiting the generality of the foregoing, Administrative Agent and each Lender each specifically agrees that (a) voting rights with respect to the pledged equity interests of each Borrower will remain with the holders of such voting rights during the existence of an Event of Default unless and until any required prior approvals to the transfer of such voting rights have been obtained (as applicable) from such State PUC (to the extent failure to obtain such approval by Administrative Agent could reasonably be expected to have or cause a Material Adverse Effect) or from the FCC, and (b) during the existence of any Event of Default and foreclosure upon the Collateral by Administrative Agent, there will be either a private or public sale of the Collateral, and (c) prior to the exercise of voting rights by the purchaser at any such sale, any consent of any State PUC or the FCC required pursuant to any State Communications Act (to the extent failure to obtain such consent could reasonably be expected to have or cause a Material Adverse Effect) or the Federal Communications Act (respectively) will be obtained.

ARTICLE 8: ADMINISTRATIVE AGENT AND RELATIONSHIP AMONG LENDERS

8.1. Appointment, Authorization and Grant of Authority. Each Lender hereby irrevocably designates and appoints MCG as the Administrative Agent of such Lender to act as specified in this Agreement and the other Loan Documents, and each such Lender hereby irrevocably authorizes MCG (in its capacity as Administrative Agent) to take actions on behalf of such Lender, to exercise such powers and to perform such other duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with all such other powers and

authority as are reasonably incidental thereto. Without limiting the generality of the foregoing, the Administrative Agent (on behalf of each Lender) is authorized (a) to execute each Loan Document (other than this Agreement, but including, without limitation, all financing statements, continuation statements and other collateral agreements and documents) for and on behalf of each Lender, and (b) to accept each Loan Document and all other agreements, documents, instruments, certificates and opinions reasonably required to implement the intent of the parties to this Agreement, and (c) to file and record all financing statements, continuation statements and other collateral agreements and documents, and (d) to receive and deliver communications and notifications to Lenders and to Borrowers, and (e) to receive and distribute payments and Advances between Lenders and Borrowers. The duties and responsibilities of the Administrative Agent shall be ministerial and administrative in nature. Notwithstanding any provision to the contrary in any Loan Document, the Administrative Agent (a) shall not have any duties or responsibilities other than those expressly set forth in the Loan Documents (which duties and responsibilities shall be subject to the limitations and qualifications set forth in this Article), and (b) shall not have any fiduciary relationship with any Lender; and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into the Loan Documents or otherwise exist against the Administrative Agent.

8.2. Acceptance of Appointment. MCG hereby accepts such appointment and agrees to act as such Administrative Agent upon the express terms and conditions (but subject to the limitations and qualifications) set forth in this Article.

8.3. Administrative Agent's Relationship with Borrowers. The provisions of this Article are solely for the benefit of the Administrative Agent and Lenders, and no Borrower shall have any rights as a third party beneficiary (or otherwise) under this Article. In performing its functions and duties under the Loan Documents, the Administrative Agent shall act solely as an agent of the Lenders, and the Administrative Agent does not assume (and shall not be deemed to have assumed) any obligation or relationship of agency or trust with or for any Borrower.

8.4. Non-Reliance on Administrative Agent and Other Lenders. Each Lender expressly acknowledges and agrees (a) that the Administrative Agent (and its directors, officers, employees, agents, attorneys-in-fact and Affiliates) have not made any representations or warranties to such Lender and (b) that no act by the Administrative Agent hereinafter taken (including, without limitation, any review of the affairs of any Borrower or other Obligor) shall be deemed to constitute any representation or warranty by the Administrative Agent to any Lender. Each Lender represents to the Administrative Agent that it (independently and without any reliance upon the Administrative Agent or any other Lender, and based upon such documents and information as it has deemed necessary or appropriate) has made its own appraisal, investigation and credit analysis of the business, assets, operations, properties, financial and other condition, prospects and creditworthiness of each Borrower and each other Obligor and has made its own decision to make its Loans hereunder and to enter into this Agreement. Each Lender also covenants and represents that it (independently and without any reliance upon the Administrative Agent or any other Lender, and based upon such documents and information as it shall deem necessary or appropriate) will continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and will continue to make such investigations as it deems necessary or appropriate to inform itself as to the business, assets, operations, properties, financial and other condition, prospects and creditworthiness of each Borrower and each other Obligor. Except as otherwise expressly provided in the Loan

Documents, the Administrative Agent shall not have any duty or responsibility (a) to keep any Lender informed as to the performance or observance by any Borrower or any other Obligor of its obligations under the Loan Documents, or (b) to inspect the books or properties of any Borrower or any other Obligor, or (c) to provide any Lender with any credit or other information concerning the business, operations, assets, properties, financial and other condition, prospects or creditworthiness of any Borrower or any other Obligor which may come into the possession of the Administrative Agent (or any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates). The Administrative Agent will make reasonable efforts to furnish to the Lenders material information concerning Borrowers of which the Administrative Agent has actual knowledge; however, in the absence of gross negligence, willful misconduct or fraud, the Administrative Agent shall not be liable to any Lender for any failure to relay or furnish to such Lender any such information.

8.5. Reliance by Administrative Agent. The Administrative Agent shall be entitled to rely and act (and shall be fully protected in relying and acting) upon any note, writing, resolution, instrument, report, notice, consent, certificate, affidavit, letter, request, electronic transmission or any other message, statement, instruction, notice, order or other writing, conversation or communication believed by Administrative Agent in good faith to be genuine and correct and to have been signed, sent or made by the proper Person. The Administrative Agent shall not be bound to ascertain or inquire as to the satisfaction, performance or observance of any of the terms, provisions, covenants or conditions of or the accuracy of any statements or representations in any Loan Document by any Borrower or any other Obligor. The Administrative Agent may deem and treat the stated payee of any Note as the holder thereof for all purposes under the Loan Documents unless and until Administrative Agent has received and accepted an assignment and assumption agreement relating thereto in form and substance acceptable to the Administrative Agent.

8.6. Delegation of Duties; Additional Reliance by Administrative Agent. The Administrative Agent may consult with, employ and perform any of its duties under the Loan Documents by or through agents, attorneys-in-fact, legal counsel, independent public accountants and other experts. The Administrative Agent shall not be responsible for the negligence or misconduct of any such Persons selected by Administrative Agent with reasonable care, and the Administrative Agent shall be fully protected in any action or inaction taken by it in good faith in reliance upon or in accordance with the advice or statements of legal counsel (including, without limitation, counsel to Borrowers), independent accountants and other experts selected by Administrative Agent.

8.7. Acting on Instructions of Lenders. The Administrative Agent shall be entitled to act or refrain from acting (and shall be fully protected in acting or refraining from acting) under the Loan Documents in accordance with a written request of or written instructions from the Required Lenders. The Administrative Agent shall also be entitled to refrain from acting (and shall be fully protected in refraining from acting) under the Loan Documents unless Administrative Agent first (a) receives such advice or concurrence of the Required Lenders as Administrative Agent deems appropriate or (b) is indemnified to its satisfaction by the Lenders against any and all liability and expense which it may incur by reason of taking or continuing to take any such action. Except as otherwise expressly stated in the Loan Documents, any requests or instructions by the Required Lenders (and any action or inaction by Administrative Agent pursuant thereto) shall be binding upon all the Lenders.

8.8. Actions Upon Occurrence of Default or Event of Default. Each Lender will use its best efforts to notify the Administrative Agent immediately in writing upon becoming aware of the occurrence of any Default or Event of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless the Administrative Agent has received notice from a Lender or a Borrower referring to this Agreement, describing such Default or Event of Default, and stating that such notice is a "notice of default". If the Administrative Agent receives any such notice of default, then the Administrative Agent shall use its best efforts to give notice thereof to each Lender as soon as reasonably practical. Upon the occurrence of any Default or Event of Default, the Lenders shall promptly consult with one another in an attempt to agree upon a mutually acceptable course of conduct. In the absence of unanimous agreement among the Lenders as to the appropriate course of conduct, the Administrative Agent shall exercise rights and take such other action on behalf of all Lenders with respect to such Default or Event of Default as directed by the Required Lenders. Unless and until the Administrative Agent shall have received such directions from the Lenders (or, as applicable, the Required Lenders), the Administrative Agent may take (but shall not be obligated to take) such action (or may refrain from taking such action) with respect to such Default or Event of Default as Administrative Agent shall deem advisable in the best interest of the Lenders.

8.9. Administrative Agent's Rights as Lender in Individual Capacity. The Administrative Agent (and its Affiliates) may make loans to, may have cash management agreements with, may accept deposits from, may issue letters of credit on behalf of, and may otherwise generally engage (and continue to engage) in any kind of business with any Borrower or other Obligor as though the Administrative Agent were not the Administrative Agent under the Loan Documents. With respect to any Loans made by Administrative Agent as a Lender hereunder and all obligations owing to it as a Lender under the Loan Documents, the Administrative Agent shall have the same rights, powers duties and obligations under the Loan Documents as any other Lender and may exercise such rights, powers, duties and obligations as though it were not the Administrative Agent hereunder. To the extent that the Administrative Agent is a Lender hereunder, the terms "Lender", "Lenders" and "Required Lenders" shall include the Administrative Agent in its individual capacity.

8.10. Advances By Administrative Agent. Unless the Administrative Agent has been notified in writing by a Lender prior to the Settlement Date for any Advance or Loan that such Lender will not make the amount constituting its Pro Rata share of such Advance or Loan available to the Administrative Agent on or prior to such applicable Settlement Date, then the Administrative Agent may assume (but shall not be required to assume) that such Lender will make such amount available to the Administrative Agent in immediately available funds on or before such Settlement Date, and in reliance upon such assumption, the Administrative Agent may make available to Borrowers a corresponding amount on behalf of such Lender. If the amount of such Pro Rata share is not made available to the Administrative Agent in immediately available funds by a Lender until after the applicable Settlement Date, then such Lender shall pay to the Administrative Agent on demand and in immediately available funds an amount equal to the result of the following equation (which shall be in addition to the amount of such Lender's Pro Rata share of such Advance or Loan): the product of (a) the average (computed for the period determined under clause (c) below) of the weighted average interest rate for Federal Funds as determined by the Administrative Agent during each day included in such period, multiplied by (b) the amount of such Lender's Pro Rata share of such Advance or Loan, multiplied by (c) a fraction (i) the numerator of which is the number of days that elapsed from and

including such Settlement Date to and including the date on which such Lender's Pro Rata share of such Advance or Loan is actually received by the Administrative Agent in immediately available funds and (ii) the denominator of which is 360. A statement from the Administrative Agent submitted to any Lender with respect to any amounts owing under this Section shall be conclusive (absent manifest error) as to the amount owed to the Administrative Agent by such Lender. If such Lender's Pro Rata share is not actually received by the Administrative Agent in immediately available funds within three (3) Business Days after the applicable Settlement Date for such Advance or Loan, then the Administrative Agent shall be entitled to recover from such Lender, on demand, the amount of such Pro Rata share with interest thereon for the entire such period since such Settlement Date at the highest interest rate per annum then applicable under the Facilities.

8.11. Payments to Lenders. Promptly after receipt in immediately available funds from Borrowers of any payment of principal, interest or any fees or other amounts due to any Lender under the Loan Documents, the Administrative Agent shall distribute to each Lender that Lender's Pro Rata share of such funds so received.

8.12. Pro-Rata Sharing of Setoff Proceeds. Any sums obtained by the Administrative Agent or any Lender from any Borrower or other Obligor by reason of any exercise of a right of setoff or banker's lien shall be shared Pro Rata among Lenders. Notwithstanding the foregoing, neither the Administrative Agent nor any Lender shall be required to so share with any other Lender collections from any Borrower or other Obligor specifically relating to (or the proceeds of any item of collateral that is not subject to the Loan Documents) any other indebtedness (i.e. other than indebtedness under the Loan Documents) of such Borrower or other Obligor to the Administrative Agent or such Lender.

8.13. Limitation on Liability of Administrative Agent. The Administrative Agent (and its directors, officers, employees, agents, attorneys-in-fact and Affiliates) shall not be liable to any Lender for any action taken or inaction by Administrative Agent or such Person under or in connection with any Loan Document, except to the extent of foreseeable actual losses resulting directly and exclusively from Administrative Agent's own gross negligence, willful misconduct or fraud. Without limiting the generality of the foregoing, the Administrative Agent (and its directors, officers, employees, agents, attorneys-in-fact and Affiliates) shall not be liable, responsible or have any duty with respect to any of the following: (a) the genuineness, execution, authorization, validity, effectiveness, enforceability, collectibility, value or sufficiency of any Loan Document, or (b) the collectibility of any amount owed by any Obligor to any Lender, or (c) the accuracy, completeness or truthfulness of any recital, statement, representation or warranty made to the Administrative Agent or to any Lender in connection with any Loan Document or other certificate, affidavit, report, opinion, financial statement, document or instrument executed or furnished pursuant to or in connection with any Loan Document, or (d) any failure of any Person to receive any notice or communication due such Person under any Loan Document or applicable law, or (e) the assets, liabilities, financial condition, results of operations, business, prospects or creditworthiness of any Borrower or any other Obligor, or (f) ascertaining or inquiring into the satisfaction, observance or performance of any condition, covenant or agreement in any Loan Document (including, without limitation, the use of proceeds by any Borrower), or (g) the inspection of any books, records or properties of any Obligor, or (h) the existence or possible existence of any Default or Event of Default.

8.14. Indemnification. To the extent that Borrowers do not actually reimburse, indemnify or hold harmless Administrative Agent (in accordance with Section 10.1 hereof), then each Lender hereby agrees on a Pro Rata basis to indemnify and hold harmless the Administrative Agent (and its directors, officers, employees, agents, attorneys-in-fact and Affiliates) from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, reasonable expenses or disbursements of any kind whatsoever that at any time (including, without limitation, at any time following the payment of the Obligations of Borrowers hereunder) may be imposed upon, incurred by or asserted against the Administrative Agent (or its directors, officers, employees, agents, attorneys-in-fact or Affiliates) in its capacity as such in any way relating to or arising out of any Loan Document, or the transactions contemplated hereby or any action or inaction taken by the Administrative Agent under or in connection with any of the foregoing; provided that no Lender shall be liable to the Administrative Agent (or its directors, officers, employees, agents, attorneys-in-fact or Affiliates) for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting directly and exclusively from the gross negligence, willful misconduct or fraud of the Administrative Agent. If any indemnity furnished to the Administrative Agent (or its directors, officers, employees, agents, attorneys-in-fact or Affiliates) for any purpose (in the opinion of the Administrative Agent) shall be insufficient or become impaired, then the Administrative Agent may require additional indemnity and cease (or not commence) to do the acts indemnified against until such additional indemnity is furnished to the satisfaction of the Administrative Agent. The agreement in this Section shall survive the payment of all Advances, Loans, fees and other Obligations of each Borrower arising hereunder.

8.15. Resignation; Successor Administrative Agent. The Administrative Agent at any time may resign as the Administrative Agent under the Loan Documents by giving the Lenders and Borrowers written notice thereof at least 10 Business Days prior to the effective date of such resignation. During such notice period, the Required Lenders shall appoint (from among the Lenders) a successor Administrative Agent for the Lenders, subject to the consent of each Lender (such approval or consent, as the case may be, not to be unreasonably withheld, delayed or conditioned) and concurrent notice to the Borrowers. Upon acceptance of such appointment by such successor agent, (a) such successor agent shall succeed to the rights, powers and duties of the Administrative Agent, and (b) the term "Administrative Agent" shall include such successor agent effective upon its appointment, and (c) the resigning Administrative Agent's rights, powers and duties as the Administrative Agent shall be terminated, all without any other or further act or deed on the part of such former Administrative Agent or any of the parties to the Loan Documents. Notwithstanding the foregoing, after the effectiveness of the resigning Administrative Agent's resignation hereunder as the Administrative Agent, the provisions of this Article shall continue to inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under the Loan Documents.

ARTICLE 9: DEFINITIONS AND RULES OF CONSTRUCTION

9.1. Definitions. When used in this Agreement, the following terms shall have the respective meanings set forth below:

9.1.1. "Access One Merger" means the acquisition transaction evidenced by that certain Agreement and Plan of Merger dated effective as of March 24, 2000, as amended, among Talk.com Inc., Aladdin Acquisition Corp. and Access One.

9.1.2. "Account" means, at any relevant time, the designated or principal deposit account of Borrowers at Administrative Agent for purposes of effecting transactions hereunder.

9.1.3. "Adjusted LIBO Rate" means the rate per annum (rounded upwards, if necessary, to the next 1/100th of 1%) determined by Administrative Agent pursuant to the following formula:

$$\text{Adjusted LIBO Rate} = \frac{\text{LIBO Rate}}{1 - \text{Reserve Percentage}}$$

For purposes of this calculation, "LIBO Rate" means the London Interbank Offered Rate per annum (determined by Administrative Agent) two (2) Business Days prior to the first day of any Interest Period for which the Adjusted LIBO Rate is applicable as published by Reuters Monitor Money Rate Service and displayed on the LIBO page as the "Libo Rate" (or, if Reuters is not available, then as published by Bloomberg or Dow Jones-Telerate and displayed on page 3750 as the BBA LIBOR) (or, in any such instance, as published by such other service or displayed on such other page as may replace such service or page for the purpose of displaying rates or prices comparable to the designated rate) for the offering of dollar deposits by leading banks in the London interbank market for a period of approximately 3 months and in an amount approximately equal to the amount outstanding hereunder to which such LIBO Rate will be applicable. If more than one such rate is displayed on such page or its replacement, then the LIBO Rate will be the arithmetic mean of such displayed rates. If the first day of the applicable Interest Period is not a Business Day, then the applicable LIBO Rate will be the rate in effect on the immediately preceding Business Day. For purposes of this calculation, "Reserve Percentage" means that percentage (expressed as a decimal) prescribed by the FRB (or any other governmental or administrative agency or funding source to which Administrative Agent is subject) for determining the reserve requirements (including any basic, supplemental, marginal or emergency reserves) for deposits of U.S. Dollars with maturities of comparable duration in a non-U.S. or an international banking office.

9.1.4. "Administrative Agent" means MCG Finance Corporation or any successor, assignee, pledgee or other transferee of Administrative Agent.

9.1.5. "Advance" means any advance of funds under any Facility.

9.1.6. "Advance Request" has the meaning set forth in Section 1.4.1.

9.1.7. "Affiliate" of any Person or entity means (a) any Person directly or indirectly owning, controlling or holding 5% or more of the outstanding beneficial interest in such person or entity, or (b) any Person as to which such other Person or entity directly or indirectly owns, controls or holds 5% or more of the outstanding beneficial interest, or (c) any Person directly or indirectly controlling, controlled by, or under common control with such other person or entity, or (d) any officer, director, partner or member of such Person, but such term does not include Administrative Agent or any Lender.

9.1.8. "Agreement" means this Credit Facility Agreement and all the exhibits and schedules hereto, all as may be amended and otherwise modified from time to time hereafter.

9.1.9. "AoL" means America Online, Inc., and its successors and assigns under the AoL Investment Agreements.

9.1.10. "AoL Investment Agreements" means that certain Investment Agreement by and between Tel-Save.com, Inc. (n/k/a Talk.com Inc.) and AoL dated as of December 31, 1998, together with all security agreements, pledge agreements, and other agreements and documents related thereto, each as may be amended and modified from time to time.

9.1.11. "Authorized Officer" means any officer, employee or representative of such organization who is expressly designated as such or is otherwise authorized to borrow funds hereunder or, as appropriate, to sign loan documents and/or deliver certificates on behalf of such organization pursuant to the provisions of such organization's most recent resolution on file with Administrative Agent.

9.1.12. "Authorization" means any License or other governmental permit, certificate and/or approval issued by any Official Body.

9.1.13. "Available Credit Portion" means that portion of the Line of Credit Commitment that is generally available in the ordinary course for borrowing at any time under the Line of Credit Facility, as such amount is determined in accordance with Section 1.3.

9.1.14. "Average Monthly Revenue" means, at the time of measurement and for the relevant period, the sum of the following: (a) Bundled Services Revenue during the relevant fiscal quarter divided by 3, plus (b) LD Only Services Revenue during the relevant fiscal quarter divided by 3.

9.1.15. "Borrower" means, individually and collectively, the following:

- a. Talk.com Holding Corp., a Pennsylvania corporation, having its principal and chief executive office at the address specified in the Notice Section hereof, or any successor or authorized assignee thereof, and
- b. Access One Communications Corp., a New Jersey corporation, having its principal and chief executive office at the address specified in the Notice Section hereof, or any successor or authorized assignee thereof, and
- c. The Other Phone Company, Inc., a Florida corporation, having its principal and chief executive office at the address specified in the Notice Section hereof, or any successor or authorized assignee thereof, and

- d. OmniCall, Inc., a South Carolina corporation, having its principal and chief executive office at the address specified in the Notice Section hereof, or any successor or authorized assignee thereof, and
- e. Tel-Save Holdings of Virginia, Inc., a Virginia corporation, having its principal and chief executive office at the address specified in the Notice Section hereof, or any successor or authorized assignee thereof, and
- f. Any other entity subsequently added hereto as a Borrower hereunder, or any successor or authorized assignee thereof.

9.1.16. "Bundled Services Revenue" means, at the time of measurement and for the relevant period, Revenue derived exclusively from Bundled Subscribers.

9.1.17. "Bundled Subscriber" means (a) a Subscriber who is a Subscriber only of Borrowers' local telephone services or (b) a Subscriber who is a Subscriber of both Borrowers' local telephone services and Borrowers' long distance telephone services.

9.1.18. "Business Day" means any day that is not a Saturday, a Sunday or a day on which banks under the laws of the Commonwealth of Virginia (or, with respect to certain LIBO Rate matters, banks in London, England) are authorized or required to be closed.

9.1.19. "Capital Expenditures" means expenditures (a) for any fixed assets or improvements, replacements, substitutions or additions thereto that have a useful life of more than one (1) year, including direct or indirect acquisition of such assets or (b) for any Capital Leases.

9.1.20. "Capital Leases" means capital leases and subleases as defined in the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 13 dated November 1976 (as amended and updated from time to time).

9.1.21. "Cash Equivalents" has the meaning set forth in Section 5.7.

9.1.22. "Change of Control" has the meaning set forth in Section 7.1.8.

9.1.23. "Closing Date" means the date on which all conditions precedent to the effectiveness of this Agreement under Section 2.1 have been satisfied or waived by Lenders.

9.1.24. "Code" means the Internal Revenue Code of 1986, as amended.

9.1.25. "Collateral" means the collateral security committed to Administrative Agent under the Collateral Security Documents executed by any Borrower or any other Obligor in favor of Administrative Agent pursuant to this Agreement from time to time and/or pursuant to all similar or related documents and agreements from time to time, all as amended from time to time.

9.1.26. "Collateral Security Documents" means, individually and collectively, (a) the Security Agreements and the financing statements filed pursuant thereto, and (b) the Pledge and

Security Agreements, and (c) any additional documents guaranteeing indebtedness, assuring performance of obligations, subordinating indebtedness, or granting security or Collateral to Administrative Agent hereunder, all as amended from time to time.

9.1.27. "Commitment" means any commitment for credit pursuant to a Facility established hereunder.

9.1.28. "Commitment Percentage" means, with respect to each Lender, that portion of the total Commitments as to which such Lender is obligated.

9.1.29. "Cumulative OCF" means OCF (as defined herein) as measured from January 1 of any given calendar year to the relevant date of measurement during such calendar year.

9.1.30. "Default" means any event or circumstance that with the giving of notice or the passage of time would constitute an Event of Default. The term Default shall include any Event of Default arising therefrom.

9.1.31. "Dollar" or "\$" means U.S. dollars.

9.1.32. "EBITDA" means, at the time of any determination, the sum of the following items for Borrowers (on a consolidated basis) during the relevant four consecutive fiscal quarter period:

- a. Net income of Borrowers from continuing operations (on a consolidated basis) during such period -- i.e., -- excluding extraordinary gains and income items and the cumulative effect of accounting changes -- determined in accordance with GAAP, and ---
- b. Plus Interest Expense of Borrowers during such period, but subtract interest income accrued during such period, and
- c. Plus federal and state income taxes paid or required to be paid by Borrowers during such period, and
- d. Plus depreciation permitted under GAAP for Borrowers during such period, and
- e. Plus amortization expense permitted under GAAP for Borrowers during such period.

9.1.33. "Environmental Control Statutes" means all federal, state and local laws, rules, ordinances and regulations (as implemented and as interpreted) governing the control, removal, storage, transportation, spill, release or discharge of hazardous or toxic wastes, substances and petroleum products, including as provided in the provisions of (a) the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendment and Reauthorization Act of 1986, and (b) the Solid Waste Disposal Act, and (c) the Clean Water Act, and (d) the Clean Air Act, and (e) the Hazardous Materials Transportation Act, and (f) the Resource

Conservation and Recovery Act of 1976, and (g) the Federal Water Pollution Control Act Amendments of 1972, and (h) the rules, regulations and ordinances of the EPA, and any departments of health services, regional water quality control boards, state water resources control boards, and/or cities in which any of such Borrower's assets are located.

9.1.34. "EPA" means the United States Environmental Protection Agency or any other entity that succeeds to its responsibilities and powers.

9.1.35. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and as implemented and interpreted.

9.1.36. "ERISA Affiliate" means any company, whether or not incorporated, which is considered a single employer with Borrower under Titles I, II and IV of ERISA.

9.1.37. "Event of Default" means each of the events described in Section 7.1.

9.1.38. "Facility" means any credit facility established under Article 1.

9.1.39. "FCC" means the Federal Communications Commission or any other entity or agency that succeeds to its responsibilities and powers.

9.1.40. "Federal Communications Act" means the Communications Act of 1934, as amended, and as implemented by the FCC and interpreted by the FCC or any court of competent jurisdiction.

9.1.1. "Fixed Charges" means, at the time of any determination, the sum of the following items (without duplication) for TALK.COM INC. and its subsidiaries (on a consolidated basis, including Borrowers) during the relevant four consecutive fiscal quarter period:

- a. The amount of principal and other non-Interest Expense contract payments paid or required to be paid and mandatory commitment reductions on Funded Debt (i.e., including the indebtedness - - under the Loan Documents) during such period, and ---
- b. Plus Interest Expense during such period, and
- c. Plus the amount of non-financed Capital Expenditures during such period.

9.1.41. "FRB" means the Board of Governors of the Federal Reserve System or any other entity or agency that succeeds to its responsibilities and powers.

9.1.42. "Funded Debt" means, at the time of any determination, the aggregate principal amount of indebtedness of TALK.COM INC. and its subsidiaries (on a consolidated basis, including Borrowers) for the following (without duplication):

- a. Borrowed money (including the indebtedness under the Loan Documents, but not including trade indebtedness permitted under Section 5.2.b), and
- b. Installment purchases of real or personal property, and
- c. Subordinated Indebtedness, and
- d. Capital Leases, and
- e. Deferred purchase price in connection with acquisitions, and
- f. Reimbursement obligations under letters of credit, and
- g. Any indebtedness or contractual payment obligation that is not paid within 60 calendar days of the due date therefor, and
- h. Any indebtedness evidenced by a promissory note, a debenture and/or an indenture, and
- i. Guaranties of indebtedness and obligations that would constitute Funded Debt hereunder if the primary obligor thereof were a Borrower, and
- j. Indebtedness otherwise required to be included as part of "Funded Debt" under Section 5.2.

9.1.43. "GAAP" means generally accepted accounting principles as set forth in the statements, opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants, of the Financial Accounting Standards Board and/or such other entity as Administrative Agent may reasonably approve, all as applied on a consistent basis as in effect from time to time.

9.1.44. "Gross Profit Margin" means gross profit margin under and defined in accordance with GAAP.

9.1.45. "Guarantor" means TALK.COM INC. and any other Person subsequently added as a guarantor under the Loan documents, or any successor or authorized assignee thereof.

9.1.46. "Guaranty" means the guaranty agreement executed by a Guarantor, as such agreement may be amended and modified from time to time.

9.1.47. "Hazardous Materials" includes (a) any "hazardous waste" as defined by the Resource Conservation and Recovery Act of 1976 (42 U.S.C. ss. 6901 et seq.), as amended from time to time, and regulations promulgated thereunder; or (b) any "hazardous substance" as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. ss. 9601 et seq.), as amended from time to time, and regulations promulgated thereunder; or (c) any other substance the use or presence of which on, in, under or above any real property ever owned,

controlled or used by Borrower is similarly regulated or prohibited by any federal, state or local law, rule, ordinance, regulation or decree of any court or governmental authority as a hazardous material.

9.1.48. "Interest Expense" means, at the time of any determination, the amount of interest and other finance charges of TALK.COM INC. and its subsidiaries (on a consolidated basis, including Borrowers) required to be charged as an expense under GAAP during the relevant four consecutive fiscal quarter period (including the fees under Section 1.7 and any other such charges with respect to any Funded Debt). For purposes of this calculation, interest includes interest accrued under Capital Leases.

9.1.49. "Interest Period" means (a) with respect to the Prime Rate, a period of one (1) Business Day, and (b) with respect to the Adjusted LIBO Rate, a period of 3 months duration commencing initially on the date of the relevant Advance and ending 3 months thereafter and (after such initial Interest Period) commencing on the day immediately following the last day of the preceding Interest Period and ending on the corresponding day 3 months thereafter.

9.1.50. "LD Only Services Revenue" means, at the time of measurement and for the relevant period, Revenue derived exclusively from LD Only Subscribers (including partition Revenue, but not including any other form of wholesale Revenue).

9.1.51. "LD Only Subscriber" means a Subscriber who is a Subscriber of Borrowers' long distance telephone services only but are not Subscribers of Borrowers' local telephone services.

9.1.52. "Lender" means, individually and collectively, the following:

- a. MCG Finance Corporation or any successor, assignee, participant, pledgee or other transferee of such Lender hereunder, and
- b. MCG Credit Corporation or any successor, assignee, participant, pledgee or other transferee of such Lender hereunder, and
- c. Any other entity subsequently added hereto as a Lender hereunder (either as a Term Lender or as a Line Lender), or any successor, assignee, participant or other transferee thereof.

9.1.53. "Leverage Ratio" means a ratio of Funded Debt as of the end of the relevant period to TTM-OCF for the relevant period.

9.1.54. "LIBO Rate" has the meaning set forth in the definition of "Adjusted LIBO Rate".

9.1.55. "License" means any authorization, construction or other permit, consent, franchise, ordinance, registration, certificate, license, call sign, frequency designation, agreement or other right filed with, granted by, issued by or entered into with any Official Body.

9.1.56. "Lien" means any security interest, mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or otherwise), reversionary or reclamation interest, charge against or interest in property to secure payment of a debt or performance of an obligation or other priority or preferential arrangement of any kind or nature whatsoever.

9.1.57. "Line Effective Date" means the date on which the conditions precedent for the effectiveness of the Line of Credit Facility as set forth in Sections 2.1 and 2.2 have been satisfied by Borrowers or waived in writing by Administrative Agent (at the direction of Line Lenders) in accordance with the terms hereof.

9.1.58. "Line Effectiveness Notification Date" means the date on which Administrative Agent provides written notification to Borrowers confirming that the Line of Credit Facility has been syndicated and will become available as set forth in Section 1.2 upon satisfaction by Borrowers or written waiver by Administrative Agent (at the direction of Line Lenders) of the conditions precedent under Sections 2.1 and 2.2.

9.1.59. "Line Lender" means a Lender who has issued a Commitment to Advance funds under the Line of Credit Facility or has otherwise agreed to be a Lender for purposes of the Line of Credit Facility.

9.1.60. "Line of Credit Commitment" means the Commitment established pursuant to Sections 1.2 and 1.3.

9.1.61. "Line of Credit Commitment Percentage" means, with respect to each Line Lender, that portion of the total Line of Credit Commitment as to which such Lender is obligated.

9.1.62. "Line of Credit Facility" means the line of credit Facility as described in Article 1.

9.1.63. "Line of Credit Maturity Date" has the meaning set forth in Section 1.2.2.

9.1.64. "Line of Credit Note" means any Note payable to the order of a Lender prepared in accordance with Section 1.2.4, as may be amended, modified, restated, replaced, supplemented, extended or renewed from time to time hereafter.

9.1.65. "LLC" means a limited liability company.

9.1.66. "Loan" means any loan or Advance of funds under any Facility as well as any other credit extended by Administrative Agent or any Lender to any Borrower under this Agreement.

9.1.67. "Loan Documents" means this Agreement, any Notes, the Collateral Security Documents and any other documents, agreements and certificates entered into or delivered in connection herewith or therewith or pursuant hereto or thereto, all as may be amended, modified and supplemented from time to time.

9.1.68. "Local Authorities" means, individually and collectively, the state and local governmental authorities that govern the activities of any Borrower.

9.1.69. "Margin Regulation" has the meaning set forth in Section 3.17.

9.1.70. "Margin Stock" has the meaning set forth in Section 3.17.

9.1.71. "Material Adverse Change" means any change that has or causes or could reasonably be expected to have or cause a Material Adverse Effect.

9.1.72. "Material Adverse Effect" means, relative to any occurrence of whatever nature (including any adverse determination in any litigation, arbitration, or governmental investigation or proceeding), a material adverse change to, or, as the case may be, a materially adverse effect on:

- a. The business, assets, revenues, financial condition, operations, Collateral or prospects of Borrowers taken as a whole or of TALK.COM INC. AND ITS SUBSIDIARIES taken as a whole; or
- b. The ability of Borrowers taken as a whole or of TALK.COM INC. AND ITS SUBSIDIARIES taken as a whole to perform any of its payment obligations when due or to perform any other material obligations under any Loan Document; or
- c. The rights, remedies or benefits of Administrative Agent or any Lender under any Loan Document.

9.1.73. "Material Contract" has the meaning set forth in Section 3.8.

9.1.74. "MCG" means MCG Finance Corporation, a Delaware corporation, or any successor or assignee thereof, having an office at the address specified in the Notice Section hereof, and which is Administrative Agent and a Lender hereunder at the time of execution hereof.

9.1.75. "Notes" means, individually and collectively, each promissory note delivered to each Lender pursuant to any Loan Document and evidencing any indebtedness to such Lender under the Loan Documents (each as may be amended, modified, supplemented, restated, extended, renewed or replaced from time to time).

9.1.76. "Obligations" means all of the indebtedness and obligations (monetary or otherwise) of any Borrower and any other Obligor arising under or in connection with any Loan Document as well as all indebtedness of any Borrower arising under or in connection with any other agreement between such Borrower and Administrative Agent or any Lender.

9.1.77. "Obligor" means each Borrower or any other Person (other than Administrative Agent and Lenders) obligated under any Loan Document.

9.1.78. "OCF" (or "Operating Cash Flow") means EBITDA (as defined in the definition thereof above).

9.1.79. "Official Body" means any federal, state, local, or other government (or any political subdivision, agency, authority, bureau, commission, department or instrumentality thereof) and any court, tribunal, grand jury or arbitrator, in each instance whether foreign or domestic.

9.1.80. "Organic Document" means, relative to any entity, its certificate and articles of incorporation or organization, its by-laws or operating agreements, and all equityholder agreements, voting agreements and similar arrangements applicable to any of its authorized shares of capital stock, its partnership interests or its member interests, and any other arrangements relating to the control or management of any such entity (whether existing as a corporation, a partnership, an LLC or otherwise).

9.1.81. "Partition" means an independent long distance and marketing company or other direct marketing agent of any Borrower that resells and markets telecommunications products of any Borrower.

9.1.82. "PBGC" means the Pension Benefits Guaranty Corporation or any other entity that succeeds to its responsibilities and powers under ERISA.

9.1.83. "Permitted Acquisitions" has the meaning set forth in Section 5.7.

9.1.84. "Permitted Guaranties" has the meaning set forth in Section 5.3.

9.1.85. "Permitted Indebtedness" has the meaning set forth in Section 5.2.

9.1.86. "Permitted Investments" has the meaning set forth in Section 5.7.

9.1.87. "Permitted Liens" has the meaning set forth in Section 5.5.

9.1.88. "Permitted Transfers" has the meaning set forth in Section 5.6.

9.1.89. "Person" means any natural person, corporation, LLC, partnership, firm, association, trust, government, governmental agency or any other entity, whether acting in an individual, fiduciary or other capacity.

9.1.90. "Plan" means any pension benefit or welfare benefit plan as defined in Sections 3(1), (2) or (3) of ERISA covering employees of any Borrower or any ERISA Affiliate of any Borrower.

9.1.91. "Pledge and Security Agreements" means, individually and collectively, each pledge and security agreement relating to a pledge of an equity interest in an enterprise (all as may be amended, modified and supplemented from time to time) required to be executed and delivered in favor of Administrative Agent pursuant to the Loan Documents.

9.1.92. "Portion" means a designated portion of the indebtedness hereunder as to which a specified Rate Index (and a corresponding Rate Margin) has been selected or deemed to be applicable.

9.1.93. "Prime Rate" means a variable rate of interest per annum equal to the rate of interest from time to time published by the Board of Governors of the Federal Reserve System in Federal Reserve statistical release H.15 (519) entitled "Selected Interest Rates" as the Bank prime loan rate. The Prime Rate also includes rates published in any successor publications of the Federal Reserve System reporting the Bank prime loan rate or its equivalent. In the event that the Board of Governors of the Federal Reserve System ceases to publish a Bank prime loan rate or equivalent, the term "Prime Rate" shall mean a variable rate of interest per annum equal to the highest of the "prime rate," "reference rate," "base rate" or other similar rate as determined by Administrative Agent announced from time to time by any of First Union National Bank, Bank of America, The Chase Manhattan Bank or Citibank, N.A. Such term, however, does not necessarily mean Administrative Agent's best or lowest rate available.

9.1.94. "Pro Rata" means from or to each Lender in proportion to its Commitment Percentage.

9.1.95. "Rate Index" has the meaning set forth in Sections 1.1.5 and 1.2.5.

9.1.96. "Rate Margin" has the meaning set forth in Sections 1.1.5 and 1.2.5.

9.1.97. "Required Lenders" means Lenders holding at least 75% of the aggregate outstanding principal amount of the Loans (or, if no Loans at the time of such determination are outstanding, then Lenders obligated with respect to at least 75% of the Commitments).

9.1.98. "Reserve Percentage" has the meaning set forth in the definition of "Adjusted LIBO Rate".

9.1.99. "Revenue" means revenue of Borrowers (on a consolidated basis) as determined in accordance with GAAP.

9.1.100. "SEC" means the Securities and Exchange Commission or any other entity that succeeds to its responsibilities and powers.

9.1.101. "Securities Acts" means, collectively, the Securities Act of 1933 and the Securities Exchange Act of 1934, each as amended, and as implemented by the SEC and interpreted by the SEC or any court of competent jurisdiction.

9.1.102. "Security Agreements" means, collectively, each security agreement (as may be amended, modified and supplemented from time to time) required to be executed and delivered in favor of Administrative Agent pursuant to Article 2, and any other security agreement required or delivered in connection with the Loan Documents, including any intellectual property assignments or security agreements required to be delivered pursuant to Article 2.

9.1.103. "Settlement Date" means, with respect to any Advance hereunder, the date on which funds are advanced by Administrative Agent.

9.1.104. "State Communications Acts" means the laws of any state in which any Borrower does business that govern the provision of communications services offered or performed by any Borrower within such state and are applicable to such Borrower, as amended from time to time, and as implemented by the rules, regulations, and orders of the applicable State PUC or any court of competent jurisdiction.

9.1.105. "State PUC" means the public utility commission or other regulatory agency of any state in which any Borrower does business that is vested with jurisdiction over such Borrower and over State Communications Acts or the provision of communication services within such state.

9.1.106. "Subordinated Indebtedness" means all indebtedness and monetary obligations of any Borrower or any Guarantor (other than indebtedness in favor of Administrative Agent or any Lender or indebtedness and obligations expressly excluded therefrom by Required Lenders), including all indebtedness treated or defined as "Subordinated Indebtedness" under any separate Subordination Agreement by and among a Borrower or a Guarantor, Administrative Agent and another Person. Notwithstanding the foregoing, the term "Subordinated Indebtedness" (unless Required Lenders otherwise require) does not include indebtedness permitted under Section 5.2.a or 5.2.b or (to the extent consistent with Section 5.5.b) under Section 5.2.c or 5.2.d.

9.1.107. "Subscriber" means any Person who is a paying customer or subscriber of a Borrower's telecommunications services, whether as an LD Only Subscriber or a Bundled Subscriber.

9.1.108. "Subscriber Acquisition Costs" means, at the time of measurement, the aggregate marketing, telemarketing and other acquisition costs associated with acquiring new Subscribers (including, any commissions paid to third parties) during the relevant fiscal quarter divided by the total number of net new Subscribers (i.e., net of attrition) added during such fiscal quarter.

9.1.109. "Subsidiary" of any Person or entity means any Person as to which such other Person or entity (a) directly or indirectly owns, controls or holds 25% or more of the outstanding beneficial interest or (b) is otherwise required in accordance with GAAP to be considered as part of a consolidated organization.

9.1.110. "Talk.com Inc." means Talk.com Inc., a Delaware corporation.

9.1.111. "Tariff" means any tariff, rate schedule or similar document that is either (a) required by law or applicable regulation to be filed with the FCC or a State PUC or (b) permitted by law or applicable regulation so to be filed and actually filed by any Borrower.

9.1.112. "Term Lender" means a Lender who has issued a Commitment to Advance funds or has otherwise agreed to be a Lender for purposes of the Term Loan Facility.

9.1.113. "Term Loan Commitment" means the Commitment established pursuant to Section 1.1 and Section 1.3.

9.1.114. "Term Loan Commitment Percentage" means, with respect to each Lender, that portion of the total Term Loan Commitment as to which such Lender is obligated.

9.1.115. "Term Loan Facility" means the term loan Facility as described in Article 1.

9.1.116. "Term Loan Maturity Date" has the meaning set forth in Section 1.1.2.

9.1.117. "Term Loan Note" means any Note payable to the order of a Lender prepared in accordance with Section 1.1.4, as may be amended, modified, restated, replaced, supplemented, extended or renewed from time to time hereafter.

9.1.2. "Total Charges" means, at the time of any determination, the sum of the following items (without duplication) for TALK.COM INC. and its subsidiaries (on a consolidated basis, including Borrowers) during the immediately preceding four consecutive fiscal quarter period:

a. The amount of Fixed Charges during such period, and

b. Plus the amount of all federal, state and local taxes paid during such period.

Notwithstanding the foregoing, payments by TALK.COM INC. of up to \$66.857 million of principal and accrued interest during 2002 relating to its 4 1/2% Convertible Subordinated Notes maturing September 15, 2002 (as Subordinated Notes exists as of the Closing Date) shall not be included in the calculation of Total Charges. Further notwithstanding the foregoing, with respect to payments by TALK.COM INC. to AoL under promissory notes issued by TALK.COM INC. pursuant to the AoL Investment Agreements as consideration for "make whole" obligations or mandatory redemptions of stock or warrants of TALK.COM INC. owned by AoL, such payments of principal and interest thereunder also shall not be included in the calculation of Total Charges IF, at the time of issuance of such promissory notes, the amount payable in respect of such obligation does not exceed the sum of (i) the unused portion of the Available Credit Portion (to the extent the Line of Credit Facility is effective) and (ii) cash and Cash Equivalents (as defined in Section 5.7(a)) held by TALK.COM INC. and Borrowers.

9.1.118. "TTM-OCF" means EBITDA for Borrowers during the immediately preceding 4 consecutive fiscal quarter periods. Notwithstanding the foregoing, for purposes of any calculation of such amount made between January 1, 2001 and December 31, 2001 with respect to performance by Borrowers during such period, then TTM-OCF shall mean year-to-date EBITDA annualized.

9.1.119. "UCC" means the Uniform Commercial Code as in effect in the applicable jurisdiction.

9.1.120. "Warrants" has the meaning set forth in Section 1.7.

9.2. Rules of Interpretation and Construction.

9.2.1. Plural; Gender. Unless otherwise expressly stated or the context clearly indicates a different intention, then (as may be appropriate in the particular context) (a) a singular number or noun used in any Loan Document includes the plural, and a plural number or noun

includes the singular, and (b) the use of the masculine, feminine or neuter gender pronouns in any Loan Document includes each and all genders.

9.2.2. Section and Schedule References. Unless otherwise expressly stated or the context clearly indicates a different intention, then all references to sections, paragraphs, clauses, schedules and exhibits in any Loan Document are to be interpreted as references to sections, paragraphs, clauses, schedules and exhibits of such Loan Document (rather than of some other Loan Document). In addition, the words "herein", "hereof", "hereunder", "hereto" and other words of similar import in any Loan Document refer to such Loan Document as a whole, and not to any particular section, paragraph or clause in such Loan Document.

9.2.3. Titles and Headings. Unless otherwise expressly stated or the context clearly indicates a different intention, then the various titles and headings in the Loan Documents are inserted for convenience only and do not affect the meaning or interpretation of such Loan Document or any provision thereof.

9.2.4. "Including" and "Among Other" References. Unless otherwise expressly stated or the context clearly indicates a different intention, then all references in the Loan Documents to phrases containing or list preceded by the words "include", "includes", "including", "among other", "among other things" or other words or phrases of similar import are to be interpreted to mean such "without limitation" (whether or not such additional phrase is actually added). In other words, such words and phrases connote an illustrative example or list rather than an exclusive example or list.

9.2.5. "Shall", "Will", "Must", "Can" and "May" References. Unless otherwise expressly stated or the context clearly indicates a different intention, then all references in the Loan Documents to the words "shall", "will" and "must" (including, when modified by "not") are to be interpreted to indicate mandatory actions or restrictions (as applicable), and all references in the Loan Documents to the words "may" and "can" (unless modified by "not") are to be interpreted to indicate permissive actions.

9.2.6. Time of Day References. Unless otherwise expressly stated or the context clearly indicates a different intention, then all time of day references in and restrictions imposed under the Loan Documents are to be calculated using Eastern Time.

9.2.7. "Knowledge" of a Person. Unless otherwise expressly stated or the context clearly indicates a different intention, then (a) all references to the "knowledge," "awareness" or "belief" of any Person that is not a natural person are to be interpreted to mean the knowledge, awareness or belief of senior and executive management of such Person (and including the knowledge or awareness of managers of limited liability companies and general partners of partnerships), and (b) all representations qualified by the "knowledge," "awareness" or "belief" of a Person are to be interpreted to mean (unless a different standard is specified) that such Person has conducted a commercially reasonable inquiry and investigation prior to making such representation.

9.2.8. Successors and Assigns. Unless otherwise expressly stated or the context clearly indicates a different intention, then all references to any Person (including any Official Body)

in any Loan Document are to be interpreted as including (as applicable) such Person's successors, assigns, estate, heirs, executors, administrators and personal representatives. Notwithstanding the foregoing, no Borrower or other Obligor may assign or delegate any Loan Document (or any right or obligation thereunder) except to the extent expressly permitted hereunder or under such other Loan Document.

9.2.9. Modifications to Documents. Unless otherwise expressly stated or the context clearly indicates a different intention, then all references to any Loan Document or other agreement or instrument in any Loan Document are to be interpreted as including all extensions, renewals, amendments, supplements, substitutions, replacements and waivers thereto and thereof from time to time.

9.2.10. References to Laws and Regulations. Unless otherwise expressly stated or the context clearly indicates a different intention, then all references to any law, regulation, rule, order or policy in any Loan Document are to be interpreted references to such law, regulation, rule or policy (a) as implemented and interpreted from time to time by Official Bodies with appropriate jurisdiction therefor, and (b) as amended, modified, supplemented, replaced and repealed from time to time.

9.2.11. Financial and Accounting Terms. Unless otherwise expressly stated or the context clearly indicates a different intention, financial and accounting terms used in the foregoing definitions or elsewhere in the Loan Documents shall be defined and determined in accordance with GAAP.

9.2.12. Conflicts Among Loan Documents. Unless otherwise expressly stated or the context clearly indicates a different intention, then any irreconcilable conflict between the terms and conditions of this Agreement and the terms and conditions of any other Loan Document (other than a Note or any warrant issued to any Lender) are to be resolved by having the terms and conditions of this Agreement govern.

9.2.13. Independence of Covenants and Defaults. All covenants and defaults contained in the Loan Documents shall be given independent effect. If a particular action or condition is not permitted by any covenant in the Loan Documents, then the fact that such action or condition would be permitted by an exception to (or would otherwise be within the limitations of) another covenant in the Loan Documents shall not avoid the occurrence or existence of a Default if such action is taken or if such condition exists.

9.2.14. Administrative Agent. References in this Agreement and the other Loan Documents to Administrative Agent shall mean either to Administrative Agent in such capacity or (where appropriate) to Administrative Agent for the benefit of Lenders. Unless otherwise indicated in this Agreement or another Loan Document, all Collateral held and all payments received by Administrative Agent are deemed to be held and received, respectively, for the benefit of Lenders.

ARTICLE 10: MISCELLANEOUS

10.1. Indemnification, Reliance and Assumption of Risk. Without limiting any other indemnification in any Loan Document, each Borrower (jointly and severally) hereby agrees to defend

Administrative Agent and each Lender (and their directors, officers, employees, agents, counsels and Affiliates) from, and hold each of them harmless against, any and all losses, liabilities, claims, damages, interests, judgments, or costs (including reasonable fees and disbursements of counsel) incurred by any of them arising out of or in any way connected with any Loan Document, except for losses resulting directly and exclusively from such Person's own gross negligence, willful misconduct or fraud (or the gross negligence, willful misconduct or fraud of any director, officer or employee of such Person). In addition, each Borrower will reimburse and (jointly and severally) indemnify Administrative Agent and each Lender for all costs and losses resulting from the following: (1) any failure or refusal by any Borrower or by any Affiliate of any Borrower to provide any requested assistance or cooperation in connection with any attempt by Administrative Agent or any Lender to liquidate any Collateral in the event of any Event of Default and/or any attempt by Administrative Agent or any Lender to otherwise exercise its rights hereunder, and (2) any misrepresentation, gross negligence, fraud or willful misconduct by any Borrower (or any of its employees or officers), or any other person or entity pledging Collateral hereunder. Moreover, with respect to any Advance Request or other communication between any Borrower and Administrative Agent and/or Lenders hereunder and all other matters and transactions in connection therewith, each Borrower hereby irrevocably authorizes Administrative Agent and each Lender to accept, rely upon, act upon and comply with any verbal or written instructions, requests, confirmations and orders of any Authorized Officer of any Borrower. Each Borrower acknowledges that the transmissions of any such instruction, request, confirmation, order or other communication involves the possibility of errors, omissions, mistakes and discrepancies, and each Borrower agrees to adopt such internal measures and operational procedures to protect its interest. By reason thereof, each Borrower hereby assumes all risk of loss and responsibility for --and hereby releases and discharges Administrative Agent and each Lender from any and all risk of loss and responsibility for, and agrees to indemnify, reimburse on demand and hold Administrative Agent and each Lender harmless from -- any and all claims, actions, damages, losses, liability and costs by reason of or in any way related to (a) Administrative Agent's or any Lender's accepting, relying and acting upon, complying with or observing any such instructions, requests, confirmations or orders from or on behalf of any such Authorized Officer, and (b) any such errors, omissions, mistakes and discrepancies by (or otherwise resulting from or attributable to the actions or inactions of) any Authorized Officer or any Borrower; provided, however, no Borrower assumes hereby the risk of any foreseeable actual loss resulting directly and exclusively from Administrative Agent's or any Lender's own gross negligence, fraud or willful misconduct. Each Borrower's obligations provided for in this Section will survive any termination of this Agreement, and the repayment of the outstanding balances hereunder.

10.2. Assignments and Participations. No Loan Document may be assigned (in whole or in part) by any Borrower without the prior written consent of each Lender. Notwithstanding any other provision of any Loan Document, without receiving any consent of any Borrower, each Lender at any time and from time to time may syndicate, participate or otherwise transfer, pledge or assign all (or any proportionate part of) its rights and obligations under any of the Loan Documents (or any indebtedness evidenced thereby) to any Person; PROVIDED, HOWEVER that so long as no Default or Event of Default has occurred and is continuing under the Loan Documents, then no Lender may syndicate, participate or assign its rights under the Loan Documents to a Person that is engaged primarily in the business of providing or marketing of telecommunications or Internet services without the prior written consent of Borrowers (which consent shall not be unreasonably withheld,

delayed or conditioned). Lenders (through Administrative Agent) will make reasonable efforts to notify Borrowers of any such absolute transfer or assignment within twenty (20) Business Days thereafter; however, a failure to so notify will in no way impair any rights of Administrative Agent or Lenders or any participant, transferee or assignee. Upon execution and delivery to Administrative Agent of an appropriate instrument between any such transferee or assignee and an assigning Lender and payment by the assigning Lender to Administrative Agent a \$1,500 assignment fee, then such transferee or assignee will become a Lender party to this Agreement and will have all the rights and obligations of a Lender as set forth in such instrument. At Administrative Agent's request, each Borrower will execute (or re-execute) and deliver (or otherwise obtain) any documents necessary to reflect or implement any such participation, transfer or assignment (including replacement promissory notes and any requested letters authorizing such transferee or assignee to rely on existing certificates and opinions) and will otherwise fully cooperate in any such syndication process. Attached as Exhibit 10.2 is a form of Assignment and Assumption Agreement, a substantially similar version of which is to be used in connection with assignment of Lenders hereunder.

10.3. No Waiver; Delay. To be effective, any waiver by Lenders must be expressed in a writing executed by Administrative Agent (with the approval of Required Lenders). Once a Default occurs under the Loan Documents, then such Default will continue to exist until it either is cured (to the extent specifically permitted) in accordance with the Loan Documents or is otherwise expressly waived by Lenders (in their sole and absolute discretion) in writing; and once an Event of Default occurs under the Loan Documents, then such Event of Default will continue to exist until it is expressly waived by Lenders (in their sole and absolute discretion) in writing. If Administrative Agent or any Lender waives any power, right or remedy arising hereunder or under any applicable law, then such waiver will not be deemed to be a waiver (a) upon the later occurrence or recurrence of any events giving rise to the earlier waiver or (b) as to any other Obligor. No failure or delay by Administrative Agent or any Lender to insist upon the strict performance of any term, condition, covenant or agreement of any of the Loan Documents, or to exercise any right, power or remedy hereunder, will constitute a waiver of compliance with any such term, condition, covenant or agreement, or preclude Administrative Agent or any Lender from exercising any such right, power, or remedy at any later time or times. By accepting payment after the due date of any amount payable under this Agreement or any other Loan Document, neither Administrative Agent nor any Lender will be deemed to waive the right either to require prompt payment when due of all other amounts payable under this Agreement or any other Loan Document or to declare an Event of Default for failure to effect such prompt payment of any such other amount. The remedies provided herein are cumulative and not exclusive of each other, the remedies provided by law, and the remedies provided by the other Loan Documents.

10.4. Modifications and Amendments. Except as otherwise expressly provided in this Agreement, no modification or amendment to any Loan Document will be effective unless made in a writing signed by appropriate officers of Administrative Agent (with the consent of the Required Lenders) and each Borrower. Notwithstanding the foregoing, to the extent that any such modification or amendment attempts to implement any of the following, then such amendment or modification must be approved by all Lenders:

- a. Increase the Commitment Percentage of any Lender, or

- b. Alter any provision that effectively reduces the interest rate applicable to the Loans, or
- c. Reduce the amount of any fees due to Lenders under any Loan Document (other than fees payable to the Administrative Agent for its own account), or
- d. Reduce the amount of any payment (whether for principal, interest or any fee, other than a fee payable to the Administrative Agent for its own account), or
- e. Postpone or extend the Maturity Date for any Facility or any scheduled payment date (whether for principal, interest or any fee, other than a fee payable to the Administrative Agent for its own account), or
- f. Change the definition of "Pro Rata" or "Required Lenders" or otherwise change the number or percentage of Lenders that are required to take or approve (or direct the Administrative Agent to take) any action under the Loan Documents, or
- g. Release or discharge any Borrower as a "Borrower" under the Loan Documents or permit any Borrower to assign to another Person any of its rights or obligations under the Loan Documents, or
- h. Release all or any part of any guaranty of any part of the Indebtedness under the Loan Documents or any security interest in or pledge of any Collateral (except as otherwise already expressly authorized under the Loan Documents), or
- i. Amend this Section.

In addition, no provision of any Loan Document relating to the rights or obligations of the Administrative Agent may be modified or amended without the consent of the Administrative Agent.

10.5. Disclosure of Information to Third Parties. Administrative Agent and each Lender will employ reasonable procedures to treat as confidential all non-public information delivered to Administrative Agent or such Lender pursuant to the Loan Documents concerning the performance, operations, assets, structure and business plans of Borrowers and/or TALK.COM INC. While other or different confidentiality procedures may be employed by Administrative Agent or any Lender, the actual procedures employed by Administrative Agent and each Lender for this purpose will be conclusively deemed to be reasonable if they are at least as protective of such information as the procedures generally employed by Administrative Agent and such Lender to safeguard the confidentiality of Administrative Agent's and Lenders' own confidential information. Notwithstanding the foregoing, Administrative Agent and each Lender may disclose any information concerning any Borrower in Administrative Agent's or such Lender's possession from time to time (a) to permitted participants, transferees, assignees, pledgees and investors (including prospective participants, transferees, assignees, pledgees and investors), but subject to a reasonable confidentiality agreement regarding any non-public confidential information thereby disclosed, and (b) in response to credit inquiries consistent with general banking practices, and (c) to any federal or state regulator of

Administrative Agent or such Lender, and (d) to Administrative Agent's or such Lender's Affiliates, employees, legal counsel, appraisers, accountants, agents and investors who have an obligation to maintain the confidentiality of such information, and (e) to any Person pursuant to compulsory judicial process, and (f) to any judicial or arbitration forum in connection with enforcing the Loan Documents or defending any action based upon the Loan Documents or the relationship between Administrative Agent, Lenders, and Borrowers, and (g) to any other Person with respect to the public or non-confidential portions of any such information. If Administrative Agent or any Lender believes (in its reasonable determination) that it is required in the course of an administrative or judicial proceeding to disclose any such non-public information, then such Person (if practical and not prohibited by such administrative or judicial body or by applicable law) shall give such Borrower or Talk.com Inc. (as applicable) notice thereof so that it may seek a protective order and/or may waive compliance with these confidentiality provisions. Moreover, Administrative Agent and each Lender (without any compensation, remuneration or notice to Borrowers) may also include operational and performance and structural information and data relating to Borrowers in compilations, reports and data bases assembled by Administrative Agent or such Lender (or their Affiliates) and used to conduct, support, assist in and validate portfolio, industry and credit research and analysis for itself and other Persons; provided, however, that neither Administrative Agent nor any Lender may thereby disclose to other Persons any information relating to Borrowers in a manner that is attributable to Borrowers unless (1) such disclosure is permitted under the standards outlined above in this Section or (2) Borrowers otherwise separately consent thereto (which consent may not be unreasonably withheld).

10.6. Binding Effect and Governing Law. This Agreement and the other Loan Documents have been delivered by Borrowers and the other Obligors and have been received by Administrative Agent in the Commonwealth of Virginia. This Agreement and all documents executed hereunder are binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. This Agreement and all documents executed hereunder are governed as to their validity, interpretation, construction and effect by the laws of the Commonwealth of Virginia (without giving effect to the conflicts of law rules of Virginia).

10.7. Notices. Any notice, request, consent, waiver or other communication required or permitted under or in connection with the Loan Documents will be deemed satisfactorily given if it is in writing and is delivered either personally to the addressee thereof, or by prepaid registered or certified U.S. mail (return receipt requested), or by a nationally recognized commercial courier service with next-day delivery charges prepaid, or by telegraph, or by facsimile (voice confirmed), or by any other reasonable means of personal delivery to the party entitled thereto at its respective address set forth below:

If to any Borrower
or its Affiliates:

[Party Entitled to Notice]
c/o Talk.com Holding Corp.
6805 Route 202
New Hope, PA 18938
Attention: Aloysius T. Lawn, IV, Esquire
Facsimile: (215) 862-1960

| | |
|-----------------------|----------------------------------|
| If to Administrative: | MCG Finance Corporation |
| Agent or Lenders: | 1100 Wilson Boulevard, Suite 800 |
| | Arlington, VA 22209 |
| | Attention: Loan Administration |
| | Facsimile: (703) 247-7505 |

Any party to a Loan Document may change its address or facsimile number for notice purposes by giving notice thereof to the other parties to such Loan Document in accordance with this Section, provided that such change shall not be effective until 2 calendar days after notice of such change. All such notices and other communications will be deemed given and effective (a) if by mail, then upon actual receipt or 5 calendar days after mailing as provided above (whichever is earlier), or (b) if by facsimile, then upon successful transmittal to such party's designated number, or (c) if by telegraph, then upon actual receipt or 2 Business Days after delivery to the telegraph company (whichever is earlier), or (d) if by nationally recognized commercial courier service, then upon actual receipt or 2 Business Days after delivery to the courier service (whichever is earlier), or (e) if otherwise delivered, then upon actual receipt. For any and all purposes related to giving and receiving notices and communications between any Borrower and Administrative Agent and Lenders under any Loan Document, each Borrower hereby irrevocably appoints Talk Holding (and its Authorized Officers) as its agent to whom Administrative Agent and each Lender may give and from whom Administrative Agent and each Lender may receive all such notices and communications, and Administrative Agent and each Lender is entitled to rely upon (and treat as being properly authorized by Borrowers) any verbal or written notices or communications purportedly received from (or that Administrative Agent or such Lender believes in good faith to be received from) such Authorized Officer.

10.8. Relationship with Prior Agreements. This Agreement completely and fully supersedes all oral agreements and all other and prior written agreements by and among Borrowers and Administrative Agent and any Lender concerning the terms and conditions of this credit arrangement.

10.9. Severability. If fulfillment of any provision of or any transaction related to any Loan Document at the time performance is due involves transcending the limit of validity prescribed by applicable law, then ipso facto, the obligation to be fulfilled shall be reduced to the limit of such validity. If any clause or provision of this Agreement operates or would prospectively operate to invalidate this Agreement or any other Loan Document in whole or in part, then such clause or provision only shall be void (as though not contained herein or therein), and the remainder of this Agreement or such other Loan Document shall remain operative and in full force and effect; provided, however, if any such clause or provision pertains to the repayment of any indebtedness hereunder, then the occurrence of any such invalidity shall entitle Lenders (in their sole and absolute discretion) to demand the immediate payment of the entire outstanding indebtedness under the Loan Documents (inclusive of all interest, fees and expenses).

10.10. Termination and Survival. All representations, warranties, covenants and other agreements of any Obligor contained in any Loan Document or any other documentation required thereunder will survive the execution and delivery of the Loan Documents and the funding of the Advances hereunder and will continue in full force and effect until terminated in accordance with this

Agreement. Upon (a) indefeasible receipt by Administrative Agent of the entire indebtedness and all other amounts then due or owing to Administrative Agent or any Lender under the Loan Documents (without any condition, deduction, offset, netting, counterclaim or reservation of rights), and (b) receipt by Administrative Agent of an instruction from Borrowers to terminate and cancel the Loan Documents, all Commitments and all Facilities thereunder (together with an acknowledgment that neither Administrative Agent nor any Lender will have any further obligations or liabilities under or in connection with any Loan Document), then Administrative Agent (at the written request and expense of Borrowers) will terminate and cancel all Loan Documents (other than the waivers, reinstatement rights, and reimbursement and indemnification protections in favor of Administrative Agent and each Lender under the Loan Documents, which provisions shall survive any such termination of the Loan Documents).

10.11. Reinstatement. To the maximum extent not prohibited by applicable law, this Agreement and the other Loan Documents (and the indebtedness hereunder and Collateral therefor) will be reinstated and the indebtedness correspondingly increased (as though such payment(s) had not been made) if at any time any amount received by Administrative Agent or any Lender in respect of any Loan Document is rescinded or must otherwise be restored, refunded or returned by Administrative Agent or such Lender to Borrower or any other Person (a) upon or as a result of the insolvency, bankruptcy, dissolution, liquidation or reorganization of any Borrower or any other Person, or (b) upon or as a result of the appointment of any receiver, intervenor, conservator, trustee or similar official for any Borrower or any other Person or for any substantial part of the assets of any Borrower or any other Person, or (c) for any other reason.

10.12. Counterparts. This Agreement may be executed in any number of counterparts with the same effect as if all the signatures on such counterparts appeared on one document. Each such counterpart will be deemed to be an original but all counterparts together will constitute one and the same instrument.

10.13. Waiver of Suretyship Defenses. Each Borrower hereby waives any and all defenses and rights of discharge based upon suretyship or impairment of collateral (including lack of attachment or perfection with respect thereto) that it may now have or may hereafter acquire with respect to Administrative Agent or any Lender or any of its obligations hereunder, under any Loan Document or under any other agreement that it may have or may hereafter enter into with Administrative Agent or any Lender.

10.14. WAIVER OF LIABILITY. Each Borrower (a) agrees that neither Administrative Agent nor any Lender (nor any of their directors, officers, employees or agents) shall have any liability to any Borrower (whether sounding in tort, contract or otherwise) for losses or costs suffered or incurred by any borrower in connection with or in any way related to the transactions contemplated or the relationship established by any Loan Document, or any act, omission or event occurring in connection herewith or therewith, except for foreseeable actual losses resulting directly from Administrative Agent's or such lender's own gross negligence, willful misconduct or fraud (including the gross negligence, willful misconduct or fraud of its directors, officers and employees) and (b) waives, releases and agrees not to sue upon any claim against administrative agent or any lender (or their directors, officers, employees or agents) whether sounding in tort, contract or otherwise, except for claims for foreseeable actual losses resulting directly from Administrative Agent's or such lender's own gross negligence, willful misconduct or fraud (including the gross negligence, willful

misconduct or fraud of its directors, officers and employees). Moreover, whether or not such damages are related to a claim that is subject to the waiver effected above and whether or not such waiver is effective, neither Administrative Agent nor any Lender (nor their directors, officers, employees or agents) shall have any liability with respect to (and each Borrower hereby waives, releases and agrees not to sue upon any claim for) any special, indirect, consequential, punitive or non-foreseeable damages suffered by any Borrower in connection with or in any way related to the transactions contemplated or the relationship established by any Loan Document, or any act, omission or event occurring in connection herewith or therewith.

10.15. FORUM SELECTION; CONSENT TO JURISDICTION. Any litigation in connection with or in any way related to any LOan Document, or any course of conduct, course of dealing, statements (whether verbal or written), actions or inactions of Administrative Agent, any LENDER or any BORROWER will be brought and maintained exclusively in the courts of the Commonwealth of Virginia or in the United States District Court for the Eastern District of Virginia; provided, however, that any suit seeking enforcement against any Borrower, any Collateral or any other property may also be brought (at Administrative Agent's and Lenders' option) in the courts of any other jurisdiction where such Collateral or other property may be found or where Administrative Agent or any Lender may otherwise obtain personal jurisdiction over such Borrower. Each Borrower hereby expressly and irrevocably submits to the jurisdiction of the courts of the Commonwealth of Virginia and of the United States District Court for the Eastern District of Virginia for the purpose of any such litigation as set forth above and irrevocably agrees to be bound by any final and non-appealable judgment rendered thereby in connection with such litigation. Each Borrower further irrevocably consents to the service of process by registered or certified mail, postage prepaid, or by personal service within or outside the Commonwealth of Virginia. Each Borrower hereby expressly and irrevocably waives, to the fullest extent permitted by law, any objection which it may have or hereafter may have to the laying of venue of any such litigation brought in any such court referred to above and any claim that any such litigation has been brought in an inconvenient forum. To the extent that any Borrower has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution or otherwise) with respect to itself or its property, then such Borrower hereby irrevocably waives such immunity in respect of its obligations under this Agreement.

10.16. WAIVER OF JURY TRIAL. Administrative Agent, each Lender and each Borrower each hereby knowingly, voluntarily and intentionally waives (to the maximum extent not prohibited by applicable law) any rights it may have to a trial by jury in respect of any litigation (whether as claim, counter-claim, affirmative defense or otherwise) in connection with or in any way related to any of the Loan Documents, or any course of conduct, course of dealing, statements (whether verbal or written), actions or inactions of administrative agent, any Lender or any Borrower. Each Borrower acknowledges and agrees (a) that it has received full and sufficient consideration for this provision (and each other provision of each other Loan Document to which it is a party), and (b) that it has been advised by legal counsel in connection herewith, and (c) that this provision is a material inducement for Administrative Agent and each lender entering into the Loan Documents and funding Advances thereunder.

[BALANCE OF PAGE INTENTIONALLY BLANK]

75

IN WITNESS WHEREOF, the undersigned, by their duly authorized officers, have executed this CREDIT FACILITY AGREEMENT, as an instrument under seal (whether or not any such seals are physically attached hereto), as of the day and year first above written.

ATTEST:

TALK.COM HOLDING CORP.

By: _____

Name: _____

Title: _____

By: _____

Name: _____

Title: _____

[SEAL]

ATTEST:

ACCESS ONE COMMUNICATIONS CORP.

By: _____

Name: _____

Title: _____

By: _____

Name: _____

Title: _____

[SEAL]

ATTEST:

OMNICALL, INC.

By: _____

Name: _____

Title: _____

By: _____

Name: _____

Title: _____

[SEAL]

ATTEST:

THE OTHER PHONE COMPANY, INC.

By: _____

Name: _____

Title: _____

By: _____

Name: _____

Title: _____

[SEAL]

76

[SIGNATURES CONTINUE ON NEXT PAGE]

77

IN WITNESS WHEREOF, the undersigned, by their duly authorized officers, have executed this CREDIT FACILITY AGREEMENT, as an instrument under seal (whether or not any such seals are physically attached hereto), as of the day and year first above written.

ATTEST:

TEL-SAVE HOLDINGS OF VIRGINIA, INC.

By: _____

Name: _____

Title: _____

By: _____

Name: _____

Title: _____

[SEAL]

[SIGNATURES CONTINUE ON NEXT PAGE]

IN WITNESS WHEREOF, the undersigned, by their duly authorized officers, have executed this CREDIT FACILITY AGREEMENT, as an instrument under seal (whether or not any such seals are physically attached hereto), as of the day and year first above written.

WITNESS:

MCG FINANCE CORPORATION (AS
ADMINISTRATIVE AGENT)

By: _____

By: _____

Name: _____

Title: _____

WITNESS:

MCG FINANCE CORPORATION (AS
TERM LENDER)

By: _____

By: _____

Name: _____

Title: _____

WITNESS:

MCG CREDIT CORPORATION (AS TERM
LENDER)

By: _____

By: _____

Name: _____

Title: _____

EX-10.5 OTHERDOC

6

0006.txt

EXHIBIT 10.5

Document is copied.

EXHIBIT 10.5

GUARANTY

THIS UNLIMITED GUARANTY OF PAYMENT (as defined in Section 15 hereof, ALONG WITH ALL OTHER DEFINED TERMS, this "Guaranty") is made and effective as of October 20, 2000 by and among TALK.COM INC. (as more fully defined below, "Guarantor") in favor of MCG FINANCE CORPORATION (as more fully defined below, "Administrative Agent"), as Administrative Agent for the Lenders.

R E C I T A L S

WHEREAS, Borrowers, Administrative Agent and Lenders have entered into (or substantially contemporaneously herewith are entering into) the Credit Agreement and other Loan Documents pursuant to which Lenders are extending credit to Borrowers on a senior secured basis; and

WHEREAS, Guarantor is the sole shareholder of TALK.COM HOLDING CORP. and ACCESS ONE COMMUNICATIONS CORP., which entities are two of the Borrowers under the Loan Documents; and

WHEREAS, to induce Administrative Agent and Lenders to perform under the Loan Documents, Guarantor has agreed to guaranty the Liabilities upon and subject to the terms of this Guaranty; and

WHEREAS, Guarantor has determined that Guarantor will derive substantial direct and indirect benefits from the extension of credit under the Loan Documents;

NOW, THEREFORE, for good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), and intending to be legally bound hereby, Guarantor and Administrative Agent each hereby agrees as follows:

1. Nature of Guaranty. Guarantor hereby unconditionally, absolutely and completely guarantees to each Lender and to Administrative Agent (for the benefit of each Lender) the full and timely payment when due of all Liabilities and the full and timely performance of all other Obligations under the Loan Documents. This Guaranty is a guaranty of payment and performance (and not a guaranty of collection). This Guaranty is a continuing and irrevocable guaranty until terminated in accordance with Section 3. All Liabilities shall be conclusively presumed to have been created, incurred, extended, accepted and continued by each Lender and Administrative Agent in reliance upon this Guaranty. GUARANTOR HEREBY DESIGNATES ALL OF ITS OBLIGATIONS UNDER THIS GUARANTY, INCLUDING, WITHOUT LIMITATION, ITS OBLIGATIONS TO PAY ALL LIABILITIES AND TO PERFORM ALL OBLIGATIONS OF BORROWERS UNDER THE LOAN DOCUMENTS, AS "DESIGNATED SENIOR DEBT" UNDER (AND AS DEFINED IN) THE SUBORDINATED NOTE INDENTURES FOR ALL PURPOSES THEREUNDER.

2. Payments Under Guaranty. Upon any demand from time to time to Guarantor by Administrative Agent during the occurrence of any Default (as defined in the Credit Agreement),

Guarantor will immediately pay and remit to Administrative Agent (for the ratable benefit of Lenders) such of the Liabilities as Administrative Agent determines to be then due under the Loan Documents (or that could be then due but for a defense thereto by a Borrower). All payments under this Guaranty shall be made by Guarantor in U.S. Dollars in immediately available funds and without any condition, deduction, offset, netting, counterclaim or reservation of rights.

3. Termination; Reinstatement. This Guaranty shall terminate and be of no further force or effect upon the occurrence of both of the following two events: (a) the indefeasible and unconditional payment in full of all of the Liabilities, and (b) the termination of the Credit Agreement (in accordance with its terms). Upon any such termination, Administrative Agent (at Guarantor's request and expense) will execute and deliver to Guarantor (without any representation, warranty, recourse, indemnification or liability of any kind whatsoever) such documents as Guarantor may reasonably request and provide to Administrative Agent to evidence such termination. Notwithstanding the foregoing, if any payment made by or on behalf of any Borrower respecting any Liability (or any portion of any such payment) at any time after the termination of this Guaranty shall be required to be repaid or refunded in compliance with any applicable state or federal law (including the United States Bankruptcy Code) or any order of a court of competent jurisdiction, then (1) the Liabilities shall be deemed not to have been indefeasibly paid in full to the extent of such repayment or refund so made, and (2) the obligations of Guarantor under this Guaranty shall be reinstated and continue in full force and effect until the conditions for termination hereof have been satisfied, and (3) the Person who repaid or refunded such payment (whether or not it is Administrative Agent) shall be entitled to the full benefits of this Guaranty, notwithstanding any prior termination of this Guaranty or the cancellation of any note or other agreement evidencing the Liabilities.

4. Collateral for Obligations. Guarantor agrees that this Guaranty (unless expressly otherwise agreed to by Administrative Agent in writing) will be secured by all collateral and credit enhancements hereafter pledged, collaterally assigned or otherwise encumbered to Administrative Agent by Guarantor, whether or not such encumbrance specifically relates to the Liabilities. At any time upon the request of Administrative Agent and at the expense of Guarantor, BUT ONLY if and to the extent that any such requested grant of collateral would not require the consent or approval of America Online, Inc. ("AoL"), then Guarantor shall grant a security interest in, pledge of and/or otherwise encumber any or all of its assets in favor of Administrative Agent (for the benefit of Lenders) as collateral support for this Guaranty.

5. Subrogation and Subordination. Until this Guaranty is terminated in accordance with Section 3, then Guarantor shall not assert or pursue any claim, remedy or other right that Guarantor at any time may have against any Borrower or other guarantor that arises from the existence, payment, performance or enforcement of Guarantor's obligations under this Guaranty or any other Loan Document, including any right of subrogation, reimbursement, contribution, exoneration, or indemnification, or any right to participate in any claim or remedy of Administrative Agent or any Lender against any Obligor, or any right or claim to any collateral that Administrative Agent or any Lender at any time may have an interest in, whether or not such claim, remedy or right arises under contract, organic document, statute, common law or in equity. Moreover, until this Guaranty is terminated in accordance with Section 3, then except as otherwise expressly permitted hereunder, under the Credit Agreement or by Administrative Agent in a separate writing, (a) any indebtedness or obligation of any Borrower or other guarantor to or in favor of Guarantor (whether evidenced by a promissory note, an inter-corporate ledger entry or otherwise) is and shall be

subordinate, junior and subject in right of payment to the prior payment to Administrative Agent (unconditionally and indefeasibly) of all of the Liabilities, and (b) no such indebtedness or obligation may be secured by any pledge, lien or other encumbrance on or of any property of any Borrower or other guarantor, and (c) Guarantor shall not take, receive, accept or demand from any Borrower or other guarantor (by set-off, recoupment, litigation or in any other manner) payment of the whole or any part of such indebtedness or obligation.

6. Enforcement; Waivers of Suretyship Defenses and Marshaling. Guarantor agrees that Administrative Agent and/or Lenders may pursue, enforce, preserve, waive and/or release any rights, claims and remedies against any Borrower or other Obligors (including other guarantors) who are in any manner liable on any Liability (and/or against any collateral security or credit enhancement therefor) in any order or manner that Administrative Agent or Lenders determine, and no such action shall affect in any manner the obligations of Guarantor hereunder. Guarantor hereby waives any and all defenses and rights of discharge based upon suretyship and/or impairment of collateral (including any lack of attachment, perfection and/or enforcement with respect thereto or any release thereof) that Guarantor at any time may have with respect to Administrative Agent or any Lender or with respect to any of Guarantor's obligations hereunder or under any other agreement that Guarantor at any time may enter into with Administrative Agent or any Lender. No modification to and no invalidity, irregularity or unenforceability (temporary or otherwise) of any Liability against any Borrower or other Obligor (or any collateral security or credit enhancement for any such Liability) shall be a defense to the performance and enforcement of the obligations under this Guaranty, including (without limitation) any failure of consideration, absence of authorization, breach of warranty, payment, fraudulent conveyance, statute of frauds, statute of limitations, accord and satisfaction, insolvency, bankruptcy and/or usury. Guarantor agrees that, upon the occurrence of any Event of Default under the Loan Documents, Administrative Agent shall have the immediate right to enforce and realize upon (or forbear therefrom) any and all collateral security and credit enhancements (including this Guaranty) granted under the Loan Documents in any manner or order that Administrative Agent deems expedient or in its or Lenders' best interest without regard to any equitable principles of marshaling or otherwise.

7. Waivers of Notices. Guarantor waives notice of acceptance of this Guaranty, notice of the incurrence of any of the Liabilities from time to time, and notice of any extension, renewal, refunding, refinancing, increase, modification and/or restructuring of any Liability from time to time. Guarantor also waives notice of any default with respect to any Liability or otherwise under the Loan Documents, and any notice of acceleration or other pursuit of any remedies under the Loan Documents (other than against Guarantor).

8. Access to Information by Guarantor. Guarantor represents to Administrative Agent and each Lender that Guarantor (a) has adequate means to obtain from Borrowers on a continuing basis information concerning the Loan Documents and the financial condition of Borrowers, and (b) is not relying upon Administrative Agent or any Lender to provide any such information either now or in the future.

9. Credit Report Authorizations. Guarantor hereby authorizes Administrative Agent from time to time (at Administrative Agent's election) (a) to obtain, review and use credit reports on Guarantor and/or any other information relating to the creditworthiness of Guarantor from any credit reporting agency or other third party and (b) to share such information with each Lender

and Administrative Agent's and each Lender's Affiliates, counsel, advisors and agents for use in connection with the Loan Documents (but subject to any restrictions and limitations on such use or disclosure as set forth in the Loan Documents).

10. Additional Guarantor Covenants. Guarantor hereby further covenants and agrees that, until this Guaranty is terminated as provided in Section 3, Guarantor will comply with the following covenants (unless Administrative Agent otherwise consents in writing, which consent will not be unreasonably withheld, delayed or conditioned while no Default is occurring):

a. Disclosure Schedules. Attached hereto as Schedule 10 is a set of Schedules describing the assets, operations and performance of Guarantor and its Subsidiaries (other than Borrowers) that would be required under Article 3 of the Credit Agreement if Guarantor were a "Borrower" thereunder (and Guarantor hereby represents that such Schedule is accurate and complete in all material respects). From time to time upon the written request of Administrative Agent (which request shall not be made more frequently than once every 12 months unless an Event of Default exists), Guarantor will prepare and deliver to Administrative Agent an updated chart of Guarantor's equity and debt capitalization and an updated list of material contracts, intellectual property (whether owned or licensed, but excluding mass market software), regulatory licenses (if any), real estate (whether owned or leased), subsidiaries, material litigation, and all on-going transactions or relationships with any Borrower. For purposes of this Section, a "material contract" includes only those agreements and contracts the loss or breach of which could have or cause a Material Adverse Effect and "material litigation" includes only those legal proceedings that, if adversely resolved, could have or cause a Material Adverse Effect.

b. Other Information; Further Assurances. From time to time, Guarantor shall provide Administrative Agent with any other information (financial or otherwise) reasonably requested by Administrative Agent. From time to time, upon request by Administrative Agent, Guarantor shall execute and deliver (or shall cause to be executed and delivered) such supplements and modifications to and/or replacements of this Guaranty and such further documents as may be reasonably required to effectuate or implement the intentions of this Guaranty (or to otherwise facilitate the performance hereof).

c. Compliance with Laws. Guarantor will comply in all material respects with all material laws, rules, regulations and orders (federal, state, local and otherwise) that are applicable to Guarantor.

d. Transactions with Borrowers. Except to the extent otherwise expressly permitted hereunder, under the Credit Agreement or by Administrative Agent in a separate writing, Guarantor will not (1) enter into any agreement or engage in any transaction with any Borrower, or (2) receive or accept any payment or any other funds (including any loans, dividends or distributions) from any Borrower. Notwithstanding the foregoing, (i) as and to the extent permitted under the Credit Agreement, Guarantor may make equity investments in and unsecured, subordinated loans to any Borrower (in each such instance, pursuant to documentation that is in form and substance reasonably acceptable to Administrative Agent), and (ii) Guarantor may license to a Borrower on a royalty-free basis intellectual property owned by Guarantor as of the Closing Date (in each such instance, pursuant to documentation that is in form and substance reasonably acceptable to Administrative Agent). FOR AVOIDANCE OF DOUBT, Guarantor also shall be entitled to receive and

accept payments and dividends from a Borrower if and to the extent (a) such Borrower is expressly permitted to make such payments under the Credit Agreement and (b) either (I) Guarantor at the time of such payment or dividend has less than \$15 million of cash, immediately available funds, and readily marketable securities or (II) within 10 Business Days after receiving the proceeds of such payment or dividend, Guarantor uses such funds to make a payment on an obligation to an unrelated third party or returns such funds to such Borrower.

e. Liens; Asset Transfers. Guarantor shall not pledge, grant a security interest in or otherwise encumber or permit any such encumbrance on any of Guarantor's assets or property other than (1) in favor of Administrative Agent (for the benefit of Lenders) or (2) purchase money security interests and capital leases (subject to the same standards, but not limited in amounts, as is set forth in Sections 5.2 and 5.5 of the Credit Agreement with respect to purchase money security interests and capital leases by a Borrower), or (3) encumbrances in favor of AoL as set forth in the AoL Investment Agreements, or (4) encumbrances listed on Schedule 10 from time to time with the consent of Administrative Agent (which consent will not be unreasonably withheld, delayed or conditioned while no Default is occurring). Guarantor shall not sell, transfer, lease, license on an exclusive basis (without retaining such Borrower's and its assigns' absolute right to use on a royalty-free basis) or otherwise dispose of ANY material asset other than (a) the stock and/or assets of Compco, Inc. and (b) assets disposed of pursuant to transactions for reasonably fair value received under the circumstances that do not involve (i) any ownership interest in, any claim against or any indebtedness or obligation of any Borrower or (ii) any asset that is used in connection with the operation of any Borrower.

f. Dividends, Distributions and Redemptions. Guarantor shall not declare or make any payment of any kind with respect to any equity interest of Guarantor (including with respect to options and warrants therefor), whether as a dividend, distribution, redemption, retirement, repurchase, return of capital or otherwise, except (as and to the extent applicable) (i) payments to and redemptions from a Borrower, and (ii) payments to and redemptions from Administrative Agent or any Lender, and (iii) payments to and redemptions from AoL in accordance with the AoL Investment Agreements, provided, however, that any such payment to AoL with respect to Guarantor's repurchase of any warrants or warrant shares shall be satisfied only through the issuance of additional stock of Guarantor (and not through a payment of cash or issuance of a note) unless either (I) no Default then exists under the Loan Documents or would otherwise be caused by the payment of such amount to AoL in cash (including, any Default under Section 4.1 on a pro forma basis after deducting such proposed payment from OCF) or (II) Administrative Agent (with the approval of Lenders) otherwise consents thereto, and (iv) redemptions from departing employees as and to the extent approved by Guarantor's board of directors, and (v) such redemptions as from time to time may be approved by Administrative Agent. Notwithstanding the foregoing, Guarantor from time to time may redeem and otherwise satisfy indebtedness (whether or not convertible into equity) at a price not to exceed par.

g. Access. Guarantor (upon Administrative Agent's reasonable request from time to time) will use commercially reasonable to provide Administrative Agent and each Lender (and their representatives and agents) with reasonable access during normal business hours to Guarantor's management personnel, books and records, property and operations (including its financial records), whether such property, books and records are in the possession of Guarantor or are in the possession of a third party (including the possession of Guarantor's Affiliates, accountants

and legal counsel), provided however that such efforts to provide access under this Section shall not require Guarantor to waive any legal privilege available to Guarantor with respect to such information.

h. Limitation on Activities, Assets and Liabilities of Holding Company. Guarantor shall not (i) engage in any activity other than owning, managing and/or providing financing for Borrowers and wholly-owned subsidiaries, or (ii) own, lease or license any assets other than cash, publicly traded investments of investment-grade quality, other marketable securities, equity interests in or unsecured, subordinated loans to a Borrower or a secured guarantor under the Loan Documents, equity interests in and unsecured, subordinated loans to (to the extent such interests and loans exist as of the Closing Date or are otherwise permitted under the Credit Agreement) any other wholly-owned subsidiary of Guarantor, assets owned and leased as of the Closing Date (including intellectual property owned as of the Closing Date, so long as such intellectual property is licensed to Borrowers on a perpetual, royalty free, world-wide basis), and/or incidental assets, furniture, equipment and leasehold interests (which incidental assets, in the aggregate, have a fair value not in excess of \$10 million), or (iii) create, establish or acquire any subsidiaries (unless such subsidiaries become either (at the election of Administrative Agent) a borrower or secured guarantor under and subject to the terms and conditions of the Loan Documents).

i. Independence of Covenants. All covenants and defaults contained in this Guaranty and the other Loan Documents shall be given independent effect. If a particular action or condition is not permitted by any covenant in this Guaranty, then the fact that such action or condition would be permitted by an exception to (or would otherwise be within the limitations of) another covenant in this Guaranty shall not avoid the occurrence or existence of a Default if such action is taken or if such condition exists.

11. Indemnity and Expenses. Guarantor hereby agrees to indemnify and hold Administrative Agent and each Lender harmless from and against any and all claims, losses, and liabilities arising out of or resulting from any of the following events (except to the extent such claims, losses or liabilities are directly caused by the gross negligence, willful misconduct or fraud of Administrative Agent or any Lender): (1) Guarantor's failure to perform or otherwise observe any of the provisions hereof, or (2) Administrative Agent's enforcement of any of the provisions hereof, or (3) Guarantor's gross negligence, willful misconduct or fraud. Upon demand, Guarantor will pay Administrative Agent the amount of any and all reasonable expenses, including the reasonable fees and disbursements of its counsel and of any experts and agents, that Administrative Agent or any Lender may incur in connection with any of the matters described in the first sentence of this Section. If Guarantor fails or refuses to pay Administrative Agent any amount due pursuant to this Guaranty or to otherwise deliver to Administrative Agent any property required to be delivered pursuant to this Guaranty, then such amount or, as appropriate, the fair market value of such property will accrue interest until paid or delivered at the rate then otherwise applicable to indebtedness under the Credit Agreement (or the maximum amount permitted by applicable law, whichever is less), and Guarantor will be obligated to pay such interest to Administrative Agent.

12. Relationship to Other Guaranties. This Guaranty shall not supersede any earlier guaranty of Guarantor in which Administrative Agent has an interest unless expressly provided herein nor shall any later guaranty of Guarantor in which Administrative Agent has an interest be construed to supersede this Guaranty unless expressly provided therein.

13. Entire Agreement; Parol Evidence. With the exception of the Loan Documents and any other guaranty agreement of Guarantor, this Guaranty contains the entire understanding and agreement between the parties hereto concerning the subject matter hereof and supersedes any and all prior understandings and agreements, whether oral or written between the parties respecting the subject matter hereof. Guarantor represents and warrants that no other oral or written representations, warranties, promises or agreements of any kind or nature whatsoever have been made by Administrative Agent to Guarantor in connection herewith, either directly or indirectly. No course of dealing, course of performance or trade usage, and no parol evidence of any nature, shall be used to supplement or modify any of the terms hereof, nor are there any conditions to the full effectiveness of this Guaranty.

14. Successors and Assigns. This Guaranty shall inure to the benefit of and may be enforced by Administrative Agent, its successors, assigns, participants, pledgees and transferees.

15. Selected Relevant Definitions. For purposes of this Guaranty, the following terms have the following corresponding meanings (otherwise, unless the context otherwise requires, then terms used in this Guaranty have the meanings provided in the Credit Agreement):

a. "Affiliate" of any Person means any other Person that directly or indirectly controls, is controlled by or is under direct or indirect common control with such Person. A Person shall be deemed to "control" another Person if such first Person directly or indirectly possesses the power to direct (or to cause the direction of or to materially influence) the management and policies of the second Person, whether through the ownership of voting securities, by contract or otherwise. Without limiting the generality of the foregoing, each of the following Persons will be deemed to be an Affiliate of a Person: (a) each Person who owns or controls 5% or more of any class or series of any equity interest of such Person, and (b) each member, manager, partner, director and/or senior executive officer of such Person or any Affiliate thereof, and (c) any family member or other relative of such Person or any Affiliate thereof, and (d) any trust of which any Person or Affiliate thereof is either a trustee or beneficiary. Notwithstanding the foregoing, neither Administrative Agent nor any Lender shall be deemed to be an Affiliate of Guarantor or any Borrower.

b. "Borrowers" means, individually and collectively, TALK.COM HOLDING CORP. and ACCESS ONE COMMUNICATIONS CORP. and the other Borrowers under and as defined in the Credit Agreement, including any successors or assignees thereof.

c. "Credit Agreement" means that certain Credit Facility Agreement dated as of October 20, 2000 (as the same may be amended, supplemented, restated, replaced, extended, increased and otherwise modified from time to time) pursuant to which Lenders are extending credit to Borrowers on a senior secured basis.

d. "Guarantor" or "Guarantors" means, individually and collectively, each party that is at any time obligated under this Guaranty, including any successor, permitted assignee, heir, executor, administrator or personal representative thereof.

e. "Guaranty" means this Guaranty as may be amended, modified, supplemented, replaced and substituted from time to time hereafter.

f. "Lenders" means, individually and collectively, each Lender under and as defined in the Credit Agreement, including any successor or assignee thereof.

g. "Liability" or "Liabilities" means, individually and collectively, each and all obligations of any Borrower and any other Obligor (as defined in the Credit Agreement) to pay principal, interest, fees, costs, indemnities, contribution obligations, protective advances and other amounts and compensation from time to time due under the Loan Documents, whether such obligation is direct or indirect, liquidated or unliquidated, absolute or contingent, joint, several or joint and several, and whether now existing or hereafter arising, due or to become due and whether or not originally contracted with Administrative Agent or any Lender, including indebtedness acquired by Administrative Agent or any Lender through whole or partial assignment of an item that would be a Liability if created directly between a Borrower and Administrative Agent or any Lender. Without limiting the foregoing, the Liabilities shall include any and all increases, extensions, renewals, refinancings and refundings of the Liabilities.

h. "Loan Documents" means the Credit Agreement and the other Loan Documents (as defined in the Credit Agreement), as the same may be amended, supplemented, restated, refinanced, replaced, extended and otherwise modified from time to time.

i. "Subordinated Note Indentures" means each of (1) the indenture dated as of September 9, 1997 between Guarantor and U.S. Bank Trust National Association (formerly known as First Trust of New York, National Association), as trustee, and (2) the indenture dated as of December 10, 1997 between Guarantor and U.S. Bank Trust National Association (formerly known as First Trust of New York, National Association), as trustee, in each case, as amended, supplemented, amended and restated or otherwise modified from time to time.

16. Miscellaneous.

a. Loan Document. This Guaranty is a Loan Document executed pursuant to the Credit Agreement and (unless otherwise expressly indicated herein) is to be construed, administered and applied in accordance with the terms and provisions thereof.

b. Confidentiality of Information. Administrative Agent shall maintain the confidentiality of all non-public information concerning Guarantor delivered to Administrative Agent pursuant to the Loan Documents as and to the extent such confidentiality would be required with respect thereto under Section 10.5 of the Credit Agreement if Guarantor were a "Borrower" thereunder.

c. Amendments. No amendment to or waiver of any provision of this Guaranty, nor any consent to any departure by Guarantor herefrom, will be effective unless such amendment, waiver or consent is in writing and signed by Administrative Agent and Guarantor. Any such waiver or consent will be effective only in the specific instance and for the specific purpose for which it is given.

d. Notices. Any notice, request, consent, waiver or other communication required or permitted under or in connection with this Guaranty will be deemed satisfactorily given if it is in writing and is delivered either personally to the addressee thereof, or by prepaid registered or

certified U.S. mail (return receipt requested), or by a nationally recognized commercial courier service with next-day delivery charges prepaid, or by telegraph, or by facsimile (voice confirmed), or by any other reasonable means of personal delivery to the party entitled thereto at its respective address set forth below its signature to this Guaranty. If any party fails to insert an address below, then such failure shall constitute a designation of its last known address as the address for all notices and communications. Any party to this Guaranty may change its address or facsimile number for notice purposes by giving notice thereof to the other parties hereto in accordance with this Section, provided that such change shall not be effective until 2 calendar days after notice of such change. All such notices and other communications will be deemed given and effective (a) if by mail, then upon actual receipt or 5 calendar days after mailing as provided above (whichever is earlier), or (b) if by facsimile, then upon successful transmittal to such party's designated number, or (c) if by telegraph, then upon actual receipt or 2 Business Days after delivery to the telegraph company (whichever is earlier), or (d) if by nationally recognized commercial courier service, then upon actual receipt or 2 Business Days after delivery to the courier service (whichever is earlier), (e) or if otherwise delivered, then upon actual receipt.

e. Headings. The various headings used in this Guaranty are for convenience of reference only, and shall not affect the meaning or interpretation of this Guaranty or any provision hereof.

f. Governing Law. This Guaranty shall be governed by and construed in accordance with the internal laws of the Commonwealth of Virginia (exclusive of its choice of law rules).

g. Counterparts. This Guaranty may be executed in several counterparts; each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

h. Severability. Wherever possible, each provision of this Guaranty shall be interpreted in such manner as to be effective and valid under applicable law. If any provision of this Guaranty shall be prohibited by or invalid under such law, then such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Guaranty.

i. Estoppel Certificates and Replacement Agreements. In connection with any subsequent sale, assignment, participation or other transfer or refinancing of the Liabilities (or any portion thereof) by Administrative Agent or any Lender or at any other time requested by Administrative Agent, Guarantor within 10 calendar days of receiving a request by Administrative Agent will provide a certificate in form and substance reasonably satisfactory to Administrative Agent confirming, among other items, the following information (if and to the extent then true): (1) that this Guaranty remains in full force and effect, and (2) that there exist no defaults under this Guaranty or under any agreements between Guarantor and any other Obligor (or any circumstances that with the passage of time or the giving of notice, or both, might constitute a default hereunder or thereunder), and (3) that there exist no offsets, counterclaims or other adjustments in favor of Guarantor under this Guaranty. Moreover, in connection with any subsequent sale, assignment, participation or other transfer or refinancing of the Loan Documents, the Liabilities or any other indebtedness of any Borrower to Administrative Agent or any Lender (or any portion thereof),

Guarantor, if requested by Administrative Agent, will concurrently execute in favor of the transferee or refinancing lender a guaranty substantially similar in form and substance to this Guaranty.

j. WAIVER OF LIABILITY. Guarantor (a) agrees that neither Administrative Agent nor any lender (nor any of their directors, officers, employees or agents) shall have any liability to guarantor (whether sounding in tort, contract or otherwise) for losses or costs suffered or incurred by guarantor in connection with or in any way related to the transactions contemplated or the relationship established by any Loan Document, or any act, omission or event occurring in connection herewith or therewith, except for foreseeable actual losses resulting directly from Administrative Agent's or such lender's own gross negligence, willful misconduct or fraud (including the gross negligence, willful misconduct or fraud of its directors, officers and employees) and (b) waives, releases and agrees not to sue upon any claim against Administrative Agent or any Lender (or their directors, officers, employees or agents) whether sounding in tort, contract or otherwise, except for claims for foreseeable actual losses resulting directly from administrative agent's or such lender's own gross negligence, willful misconduct or fraud (including the gross negligence, willful misconduct or fraud of its directors, officers and employees). Moreover, whether or not such damages are related to a claim that is subject to the waiver effected above and whether or not such waiver is effective, neither Administrative Agent nor any lender (nor their directors, officers, employees or agents) shall have any liability with respect to (and Guarantor hereby waives, releases and agrees not to sue upon any claim for) any special, indirect, consequential, punitive or non-foreseeable damages suffered by guarantor in connection with or in any way related to the transactions contemplated or the relationship established by any Loan Document, or any act, omission or event occurring in connection herewith or therewith.

k. FORUM SELECTION; CONSENT TO JURISDICTION. Any litigation in connection with or in any way related to any loan document, or any course of conduct, course of dealing, statements (whether verbal or written), actions or inactions of Administrative Agent, any Lender or Guarantor will be brought and maintained exclusively in the courts of the Commonwealth of Virginia or in the United States District Court for the Eastern District of Virginia; provided, however, that any suit seeking enforcement against guarantor, any Collateral or any other property may also be brought (at Administrative Agent's and Lenders' option) in the courts of any other jurisdiction where such Collateral or other property may be found or where Administrative Agent or any lender may otherwise obtain personal jurisdiction over Guarantor. Guarantor hereby expressly and irrevocably submits to the jurisdiction of the courts of the Commonwealth of Virginia and of the United States District Court for the Eastern District of Virginia for the purpose of any such litigation as set forth above and irrevocably agrees to be bound by any final and non-appealable judgment rendered thereby in connection with such litigation. Guarantor further irrevocably consents to the service of process by registered or certified mail, postage prepaid, or by personal service within or outside the Commonwealth of Virginia. Guarantor hereby expressly and irrevocably waives, to the fullest extent permitted by law, any objection which it may have or hereafter may have to the laying of venue of any such litigation brought in any such court referred to above and any claim that any such litigation has been brought in an inconvenient forum. To the extent that Guarantor has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to

judgment, attachment in aid of execution or otherwise) with respect to itself or its property, then guarantor hereby irrevocably waives such immunity in respect of its obligations under this guaranty.

1. WAIVER OF JURY TRIAL. Administrative Agent, each Lender and Guarantor each hereby knowingly, voluntarily and intentionally waives (to the maximum extent not prohibited by applicable law) any rights it may have to a trial by jury in respect of any litigation (whether as claim, counter-claim, affirmative defense or otherwise) in connection with or in any way related to any of the Loan Documents, or any course of conduct, course of dealing, statements (whether verbal or written), actions or inactions of Administrative Agent, any Lender or Guarantor. Guarantor acknowledges and agrees (a) that it has received full and sufficient consideration for this provision (and each other provision of each other Loan Document to which it is a party), and (b) that it has been advised by legal counsel in connection herewith, and (c) that this provision is a material inducement for Administrative Agent and each Lender entering into the Loan Documents and funding Advances thereunder.

[BALANCE OF PAGE INTENTIONALLY BLANK]

IN WITNESS WHEREOF, this UNLIMITED GUARANTY has been duly executed by the parties hereto (through their authorized officers, if appropriate), as an instrument under seal (whether or not any such seal is actually physically attached hereto), as of the day and year first above written.

ATTEST:

TALK.COM INC., Guarantor

 Name: -----
 Title: -----

[SEAL]

By: -----
 Name: -----
 Title: -----

Address: 6805 Route 202
 New Hope, PA 18938
 Attn: General Counsel

Facsimile: (215) 862-1960

WITNESS:

MCG FINANCE CORPORATION (AS
ADMINISTRATIVE AGENT)

By: -----
 Name: Steven F. Tunney
 Title: COO and CFO

Address: 1100 Wilson Boulevard
 Suite 800
 Arlington, Virginia 22209

Facsimile: (703) 247-7505

<TYPE>EX-27 OTHERDOC
 <SEQUENCE>7
 <FILENAME>0007.txt
 <DESCRIPTION>FDS --
 <TEXT>

<OTHERDOC-AVAILABLE Series=0007.txt Ver="">Document is copied.
 <TABLE> <S> <C>

<ARTICLE> 5
 <LEGEND>
 THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
 UNAUDITED CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2000 AND THE UNAUDITED
 CONSOLIDATED STATEMENT OF INCOME FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000 OF
 TALK.COM INC. AND SUBSIDIARIES AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO
 SUCH FINANCIAL STATEMENTS.

</LEGEND>
 <CIK> 000948545
 <NAME> TALK.COM
 <MULTIPLIER> 1
 <CURRENCY> US DOLLARS

| | | |
|-------------------|-------|-------------|
| <S> | <C> | |
| <PERIOD-TYPE> | 9-MOS | |
| <FISCAL-YEAR-END> | | DEC-31-2000 |
| <PERIOD-START> | | JAN-01-2000 |
| <PERIOD-END> | | SEP-30-2000 |
| <EXCHANGE-RATE> | | 1 |
| <CASH> | | 70,436,000 |
| <SECURITIES> | | 0 |
| <RECEIVABLES> | | 80,311,000 |

| | |
|------------------------------|--------------|
| <ALLOWANCES> | 23,189,000 |
| <INVENTORY> | 0 |
| <CURRENT-ASSETS> | 132,038,000 |
| <PP&E> | 102,046,000 |
| <DEPRECIATION> | 20,255,000 |
| <TOTAL-ASSETS> | 443,351,000 |
| <CURRENT-LIABILITIES> | 106,310,000 |
| <BONDS> | 0 |
| <PREFERRED-MANDATORY> | 0 |
| <PREFERRED> | 0 |
| <COMMON> | 784,000 |
| <OTHER-SE> | 181,838,000 |
| <TOTAL-LIABILITY-AND-EQUITY> | 443,351,000 |
| <SALES> | 0 |
| <TOTAL-REVENUES> | 413,071,000 |
| <CGS> | 0 |
| <TOTAL-COSTS> | 252,703,000 |
| <OTHER-EXPENSES> | 181,052,000 |
| <LOSS-PROVISION> | 0 |
| <INTEREST-EXPENSE> | 3,581,000 |
| <INCOME-PRETAX> | (22,281,000) |
| <INCOME-TAX> | 0 |
| <INCOME-CONTINUING> | (22,281,000) |
| <DISCONTINUED> | 0 |
| <EXTRAORDINARY> | 0 |
| <CHANGES> | 0 |
| <NET-INCOME> | (22,281,000) |
| <EPS-BASIC> | (0.33) |
| <EPS-DILUTED> | (0.33) |